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CA INTER DEC 2021



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LAW 69



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LAW 61

OUR RESULTS SPEAK THEMSELVES

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CA INTER, JAN 2021 RESULT



ROHIT TYAGI

ALL INDIA RANK
(AIR) **38th**

AUDIT : 69 Marks

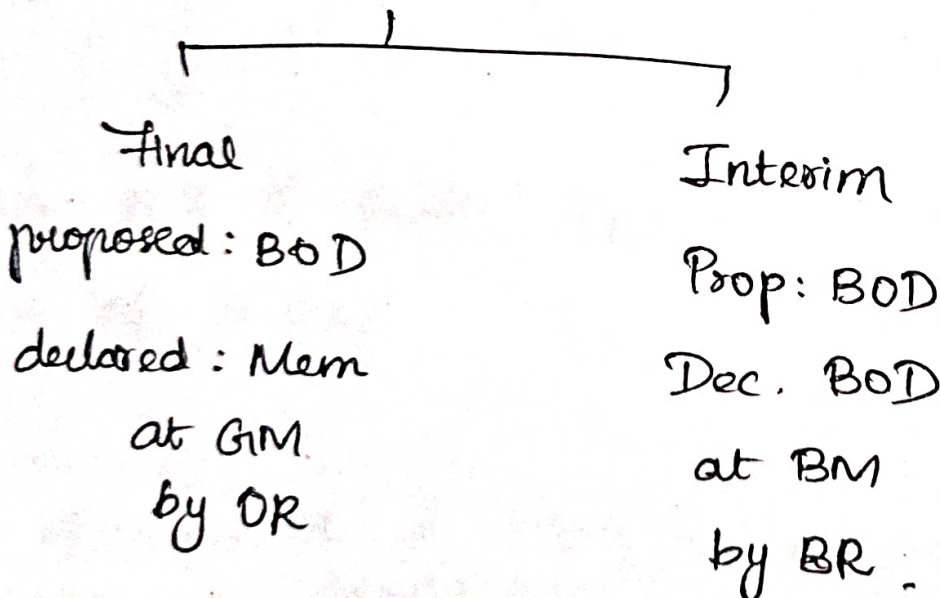


CA ABHISHEK BANSAL

DIVIDENDS.

- 123 - Source of payments of dividend
- 124 - Unpaid Dividend.
- 125 - IEPF
- 126 - Abeyance
- 127 - Time limit / Revocation.

① Dividends



② Sources - 123

1) Free Reserves

2) CY's / PY / Acc. profit

* Depⁿ * losses: set off

3) Money given $\leftarrow \begin{matrix} CG \\ SG \end{matrix}$ if

POD: guaranteed $\leftarrow \begin{matrix} CG \\ SG \end{matrix}$

③ Trf to Reserves \rightarrow Voluntary / Optional

④ Time limit \rightarrow S. 127

Dividend = declared at AGM \Rightarrow paid \leq 300 of
30 Dy declaration.

CO = S.I @ 18% p.a.

DIR \equiv 1000/day + max. 2yrs imprisonment.

Penalty not levied in following cases: DDLS.

1) No default of company.

2) Direction given by SH could not be complied &
same has been communication of SH.

3) Operation of law.

4) Shagda (Dispute) to receive dividend/dmt in lawfully
adjusted against any limit due by SH

⑤ Revocation

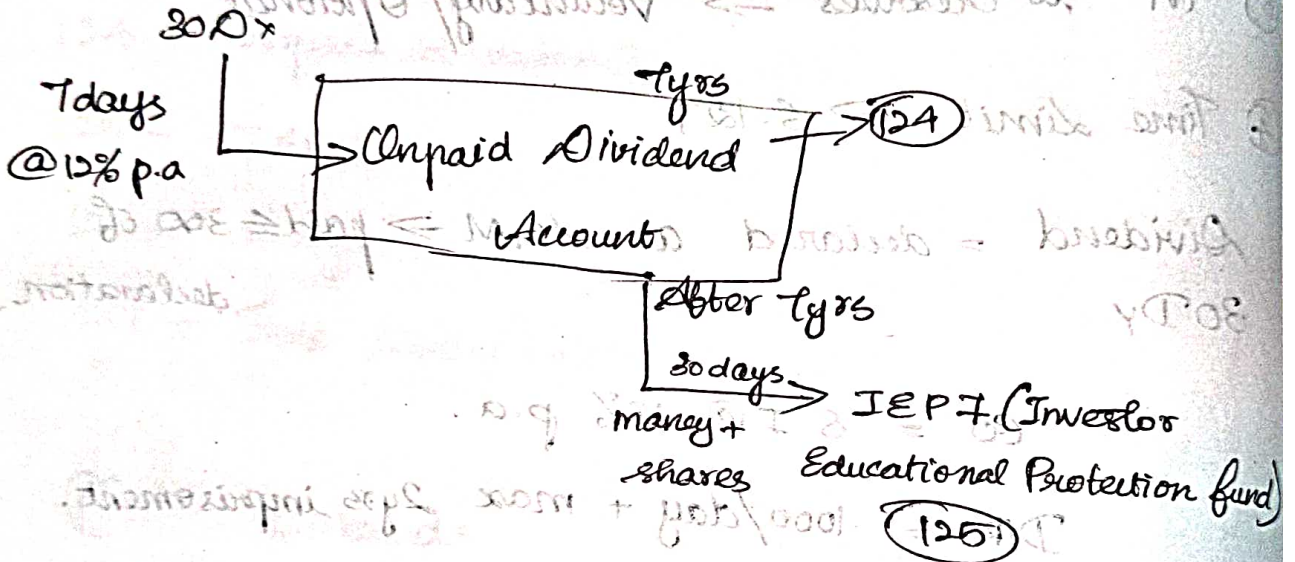
Dividend once declared cannot be revoked

Exception

Ultra vires

Going concern.

⑥ Dividend once declared \rightarrow claimed ≤ 30 days



If Sec 124 is contravened.

C = Rs L

+ 500/day - max ₹10K

Officers

= 25K - 100/day

- max ₹2K

⑦ Dividend to be paid out of past profit which had been transferred to FREE RESERVES.

In case of inadequate/absence of profit, the Co. can declare dividend out of past profits which

had been transferred to reserves, complied with 3 conditions: -

→ Rate of Dividend \leq Average Dividend Rate in immediately preceding 3 years and Provided that this sub-rule shall not apply to a company, which has not declare any dividend in each of the 3 preceding FY.

(and)

→ Amt. withdrawn \leq 10% of (Paid up capital + Free reserve) and this amt. first be utilized to set off losses incurred in this year.

(and)

→ Balance of Reserves \geq 15% of paid up capital as per last audited B/S.

If carried forward profit is not transferred to reserve and co. is utilizing the same for payment of dividend it can do so that is without any restrictions it can pay dividend.

^{Imp} (8) * In case co. has losses in the current financial year upto to the end of the quarter immediately preceding date of declaration of interim dividend then,

Rate of Interim Dividend \leq Avg Rate of Dividend of last 3 years.

* The amt of div. including interim dividends shall be deposited in scheduled bank within 5 days of declaration.

* As per sec 91, the Co. can close the register of members, debenture holder, other security holder for maximum 45 days in a year and (maximum 30 days) at any one time. Minimum 7 days notice is required before the closure of register.

* Dividend may be paid in cash / cheque / warrant / electronic mode.

* If a company fails to comply with sec 73 & 74 that is prohibition on acceptance of company deposits and repayment of co. deposit shall not declared dividends so long as it continues.

AUTOMATED ENVIRONMENT.

* Automated Environment means business environment where processes, operation, accounting and even decisions are carried out by using computer system known as Information System or Information Technology system.

* The key features of automated environment are - FASE LIC

F → Enables fast business operations

A → Accuracy in data processing and computation.

L → Ability to process large volumes of transactions.

S → Better security and controls

E → Less prone to human errors.

L → Provides latest information

I → Integration btw business operations

C → Connectivity & Networking capability

② What is the relevance of 'IT' in audit?

IT is used in audit in following ways.

C → Computation and calculations are automatically carried out (for example bank interest computation and inventory valuation).

A → Accounting entries are posted automatically (for example, sub-ledger to GL postings are automatic).

B → Business policies and procedures, including internal controls, are applied automatically (for example, delegation of authority for journal approvals, customer credit limit checks are performed automatically).

R → Reports used in business are produced from systems. Management and other stakeholders rely on these reports and information produced (for example, debtors ageing report).

U → User access and security are controlled by assigning system roles to users (for eg: segregation of duties can be enforced effectively).

③ How as an auditor you will understand and document automated environment? ↳ 315
↳ 230

As per SA 315, the auditor needs to obtain understanding of the entity, business including automated environment. Following points shall be considered by the auditor - VIP ALOK.

V - Version (functions and risks could vary in different versions of same application)

I → Information systems being used (one or more application systems and what they are).

P → Their purpose (financial & nonfinancial).

A → Architecture (desktop based, client server, web application, cloud based).

L → Locations of IT systems - local vs global.

O → Outsourced activities (IT maintenance and support)

K → Key persons (CIO, CISO, Administrators).

→ Interfaces within systems (in case multiple systems exist).

The understanding of the company is automated environment shall be documented as per SA-230.

Example of template that can be used the document or understanding is illustrated below :-

Information system being used	Version	Purpose	Location local vs Global	Architecture	Inhouse vs Packaged	Key Persons
SAP	V2.5	Accounting	Global	Web-based	Package	CIO, ELBO

A) What are the risk arising out of IT system?

Following are the risk arising out of IT system

- LUCI-7E

L → Loss of data

U → Unauthorised access to data/direct data changes

C → Unauthorised changes to systems or programs.

I → Inaccurate processing of data.

processing inaccurate data or both.

4 → Failure to make necessary changes to system or programs.

E → Excessive access/Privileged ~~etc~~ access (super users)

⑤ What is the impact of IT risk on change in audit procedures?

* We may not be able to rely on the data obtained from system where such risk exists. This means all data, information or reports obtained from the system has to be thoroughly tested and corroborated for completeness and accuracy.

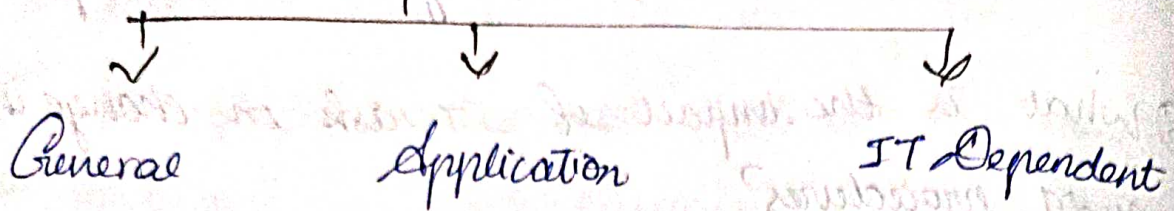
* Secondly, we may not be able to rely on automated controls, calculations and accounting procedures and thus additional audit work may be required in this case.

* Thirdly, because of regulatory requirement of auditor to report on internal financial control of company the audit report may also be modified in some instances.

* In all the above cases, the auditor will be required to obtain more audit evidence and performance

additional audit work.

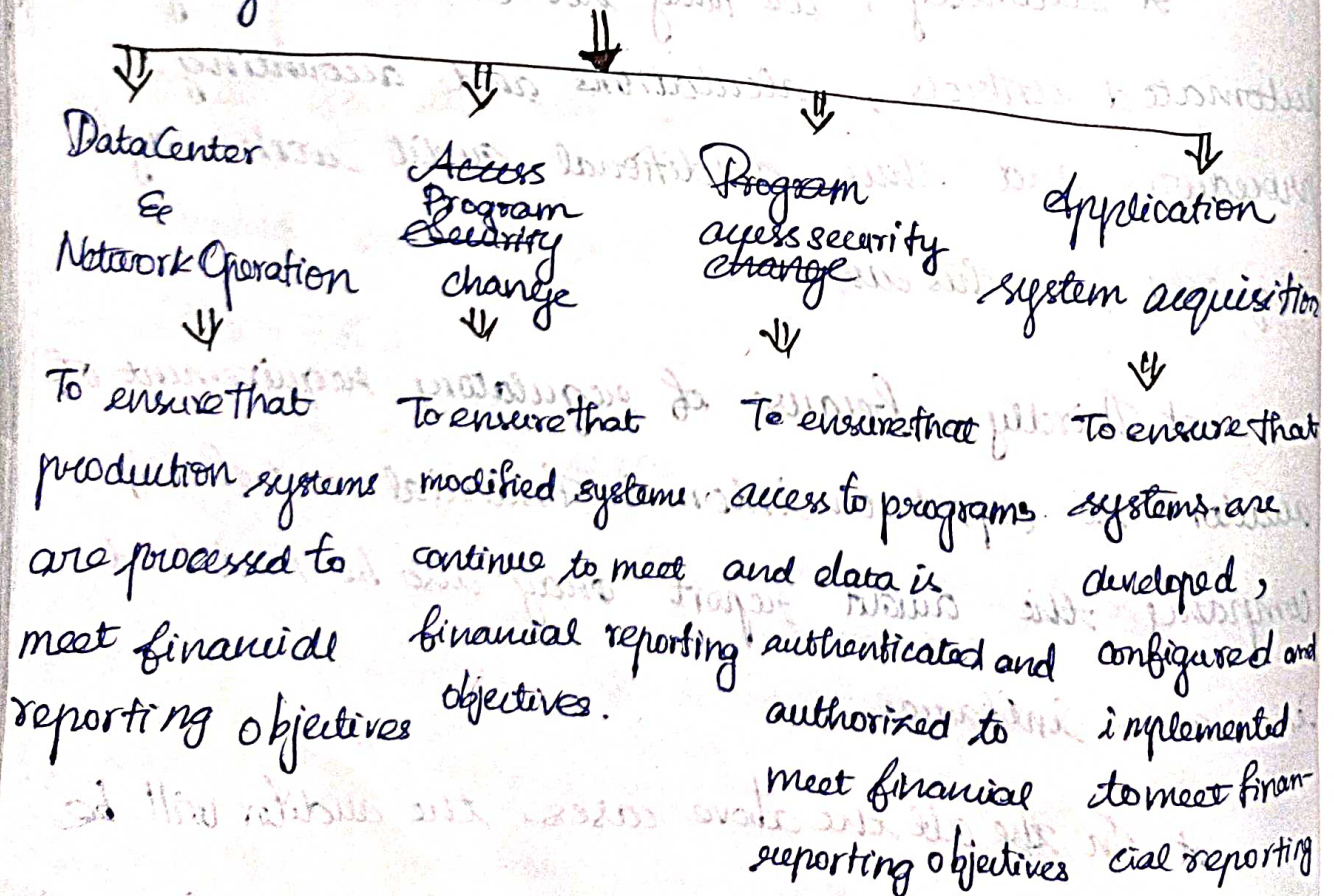
⑥ Types of Control in Automated Environment



a) General Controls

In general controls, these controls are policies and procedures that relate to many applications and support the ~~effective~~ ^{effective} functioning of app. controls. It includes controls over

followings:-



b) Application Controls.

These are both automated & manual controls. These operate at business process level. Examples are edit checks, validation of input data, sequence number checks, user limit checks, mandatory data fields.

c) IT Dependent Controls

* These are manual control that makes use for some form of data or information or report produced from IT system and application.

* Even though the control is performed manually, the design and effectiveness of control depends on reliability of source data.

* Eg: Performing reconciliation based upon computer generated data.

④ Mention the procedure for performing tests under IT environments?

* There are 4 types of audit test that should be used that is inquiry, observation, inspection & reperformance.

* Inquiry is the most efficient audit test but it gives least audit evidence.

* Reperformance is the most effective audit test but is not efficient.

* Inquiry alone cannot be used. It should always be used in combination with other audit testing method. Applying inquiry in combination with inspection is more effective and efficient audit evidence.

* Which audit test to be used when & in what combination is a matter of professional judgement of auditor.

* Some of the common methods are

1. Obtaining the understanding of IT controls

transaction is processed.

2. Observing how user process is transactions under different scenarios

3. Inspect the configuration defined in an application

4. Inspect the system logs to determine any changes since last audit testing.

③ Explain Data Analytics.

1. The combination of process, tool & techniques that are used to tap ~~most~~^{vast} amount of electronic data to obtain meaningful info. it's called data analytics.

2. The tools & techniques that are used in applying the use principles of data analytics are called as computer assisted auditing techniques (CAAT).

3. Data Analytics can be used in testing electronic records by using spreadsheets and specialize audit tools like IDEA, ACL to perform

the following :-

a) Check completeness of data and population

b) Selection of audit sample

c) Recalculation of balances

d) Reperformance of mathematical calculations

e) Analysis of Journal entries

f) Evaluating impact of control deficiency

A suggested approach to benefit from CAAT is given below:-

→

→ Understand business environment including IT

We have to do EA course

→ Define the Objective and criteria

We have to clear in 1st attempt

→ Identify source and format of data

Notes required.

→ Extract data

extracted note from ICAI site

→ Verify completeness and accuracy of extracted data

Check applicability of

→ apply criteria on data obtained.

→ Validate and confirm the result

→ Report and document results and conclusions.

Give Mock paper

Give actual paper

We become "CA"

How as an auditor you would report with regards to IT environment

Refer O.T pg no:-28 in main book

Explain Internal Financial Control.

IFC's are policies and procedure establish by Companies for ensuring → DOLA - R

D * Prevention and Detection of Frauds

O * Effectiveness and efficiency of operations

A * Compliances with applicable law & Regulations

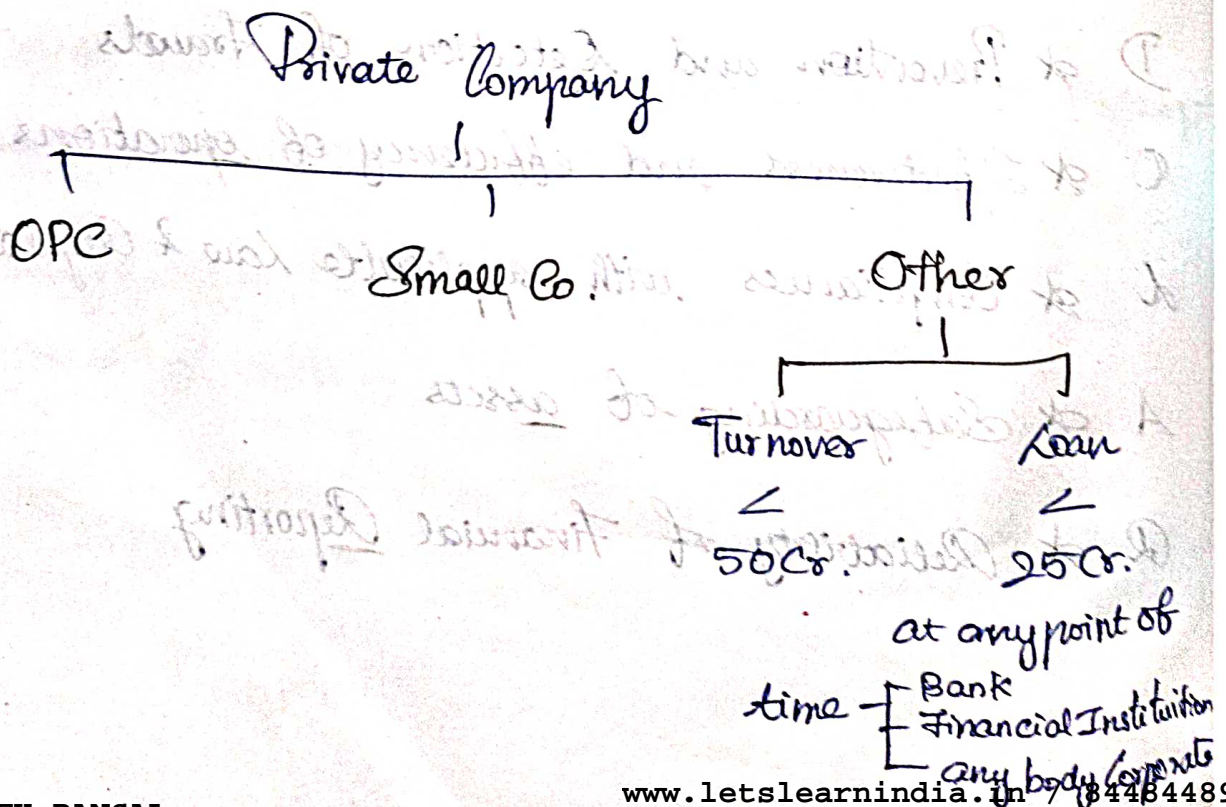
A * Safeguarding of assets

R * Reliability of Financial Reporting

IFCs are applicable to all companies. However, in case of listed companies the directors will state that IFC's in place and we are operating effectively.

The independent directors, audit committee and stat. auditors are also responsible for efficiency of IFC.

As per 143(3)(i) the auditor will state that IFC is in place and it is operating effectively. However in case this will not be applicable to a few private company.



ACCOUNTS OF COMPANIES

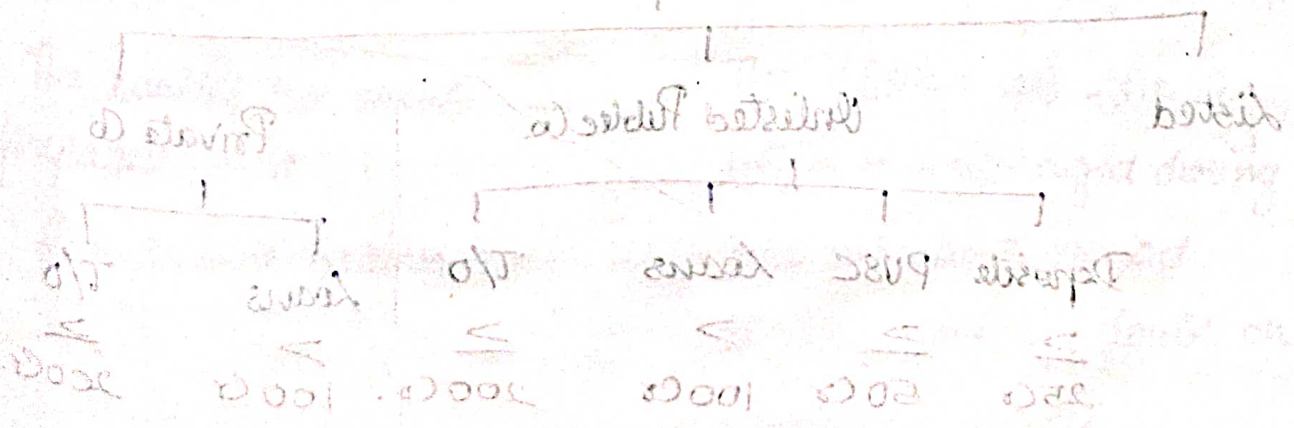
Refer Qn 1, 5, 7 - correct / incorrect pg: 6.26 (ICAI module)

Refer Qn 6, 7, 8, 9 - theory ques Pg: 6.27 (ISM)

- 134 → ONLY
- 135 → FOR
- 136 → LAW
- 137 →

138 → International Securities (IP & IS)

(IP & IS)



1) CARO is applicable

⇒ All Companies + Foreign Co.'s

2) CARO - Not applicable to

B - Banking Co.

I - Insurance Co.

P - Pvt Ltd Co.

S - Sec & OPC/Small Co.

POOR

PUSC + Res o/s loan Revenue
≤ 1 Cr. & ≤ 1 Cr. & ≤ 10 Cr.

↓
at any point of time

if any 1 Cr
CARO

Note:

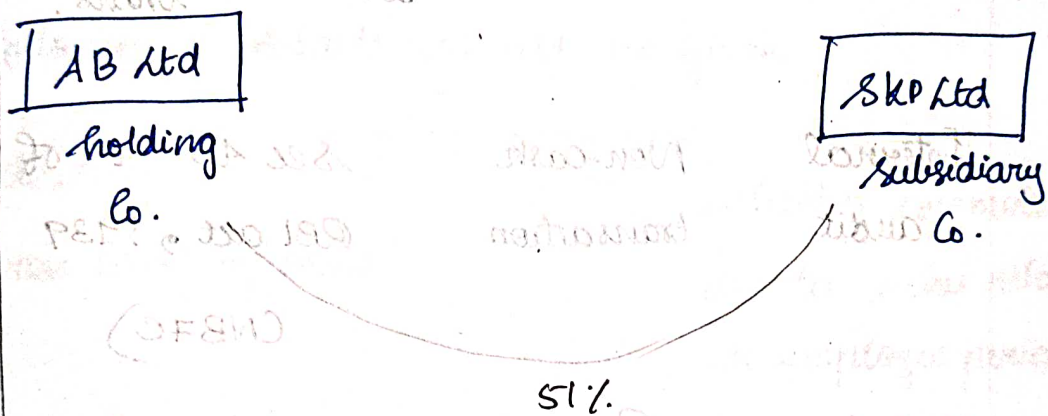
→ as per Sec of Companies Act 2013,

Foreign Companies means companies which

incorporated outside the India having the business inside the India and conducting any business activity in India.

⇒ CARO is not applicable at a time of consolidation

⇒ CARO is applicable to a deemed public Co. (i.e) a Pvt company which is a holding or subsidiary of public Company.



SKP Ltd is deemed public Co.

⇒ For paid up share capital consider both equity and preference

⇒ For reserves, consider all types of reserves (i.e) free reserves, capital reserves, security premium, CRR, revaluation etc.

CRR - Capital redemption reserve

→ For loans consider all kinds of loan
 (e) short term, long term, secured, unsecured etc.

→ For revenue consider all revenue

1) FIOD PC Statutory Income
 Dues (unrecorded)

& if defaulted.

Public offer Fraud Nidhi Related party
 Co. trans.

Internal
 audit

Non-cash
 transaction

Sec 45 - IA of
 RBI act, 1939

(CNB7C)

Cash losses Resignation Material Uncertainty

CSR

Qualification / Adverse

Remark

in other group Co.'s

CARD EXAUSES

1) Fixed asset: Tangible

Intangible

i) Records should display $\left\{ \begin{array}{l} \text{details} \\ \text{quantity} \\ \text{situation} \end{array} \right\}$ Tangible
Intangible
assets.

ii) Physical verification is carried out at regular intervals.

iii) Material discrepancy, if any \rightarrow reported.

iv) Title deeds of immovable properties display that properties are held in the name of the Co.
(except the properties where Co. is lease).

v) If title deed are not held in name of Co., the following details should be given in description

Gross Carrying values

whether promoter
director other relative
or employee period
held reason for not
being held in name of
Co.

vi) Whether revaluation has been done by the Company of its property, plant and equipment and whether revaluation is done by registered value.

vii) In case of change in revaluation, specify the amount of change is $\geq 10\%$ (ie minimum).

of net carrying value of each class of the intangible assets/PPE

viii) Whether any proceeding ^{Initiated} _{Penalty}

against the Co. under Benami transaction (Prohibition) Act, 1988. If Yes, whether

the company has disclosed the details in its financial statements.

2) Inventories

i) Whether physical verification is carried out at regular intervals.

ii) Whether material discrepancy of 10% or more (min) is properly dealt in BOA.

iii) Has the company taken working capital > 5 Cr. from (Bank or FI) on security of current assets.

iv) Are quarterly statement/statements filed by Co. (Bank or FI) is in agreement with BOA. If not, give details.

3) Debts

i) Whether Co. has given LGs to ^{Co.'s} _{firms} _{KLP} _{any other party}

ii) If Co. has given loans during the year indicate;

a) Total amount during the year and bal % on BS date to subsidiary, associates of JVS (Joint venture)

b) Total amount during the year & bal % on BS date to parties other than associates, subsidiaries, Joint ventures and associates.

iii) Whether loans made is not prejudicial to the interest of Co.

iv) Whether repay of $\left\langle \begin{array}{l} \text{Principal} \\ \text{Int} \end{array} \right\rangle$ is regular.

v) If the amt is overdue > 90 days check whether reasonable steps have been taken by the Co. for recovery.

vi) Whether any loan & advances is renewed during the year or fresh loan is granted to settle the overdue loan to same parties, specify the amt of such loans renewed or fresh loans.

vii) Whether Co. has granted loans & adv. either repay on demand w/o specifying the terms or period of repay.

⇒ the specify amt

4) Adequacy of 8.185 & 8.186

Check the provision (8.185, 186) ⇒ Complied

If not give details thereof.

5) Public deposits

For deposits accepted which are deemed to be deposits

Check

Directives

Provisions

Orders

⇓

⇓

⇓

RBI

Co.s act

NEXT/court

are complied with

6) Cost records

Whether cost records 4/s 148 maintained

If not give details.

7) Statutory dues

Undisputed

Disputed

4/s for 6m or more

Always

⇓

Report

Ant Authority

8) Unrecorded Income

Whether any unrecorded/undisclosed income is disclosed in a/c during the year.

9) Default in Repay of borrowings.

Whether Co. defaulted in repay -

Bank	} kinds wise
FI	
Govt	
deb holders	

Is the Co. disclosed or wilful defaulter.

Are term loans used for the purpose for which they were obtained

Are short term money used for long term.

Has the Co. raised from person/entity and used to pay-off obligation -

Sub	}
associates	
Joint Ventures.	

Has the Co. raised money by pledging securities held in -

subs	}
associates	
J.V.	

10) Public Offers -

IPO	}
FPD.	

Money raised is used for proper purpose

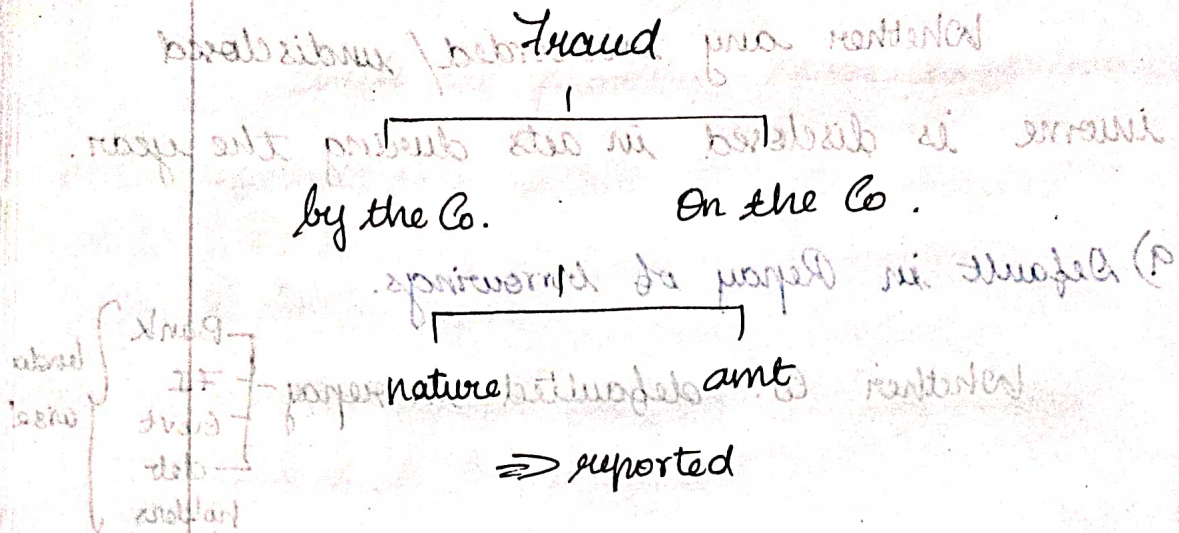
details → delays → rectification

⇒ Given

whether -

Preferential allotment (b2) as per Sec 42/62	}
Private placement (45)	

4) Fraud & Whistle blowers.



Whether auditor have filed AAT-4 with the Central Govt.

In case of whistle blower complaint, whether complaints have been considered by the auditor.

12) Nidhi Co.

Net owned fund to deposit liability
= 1:20 meeting liabilities

Maintained 10% of deposit is in unencumbered term deposits.

13) Related party loans.

Sec 188 - Complied

If not - details

14) Internal audit

Does Co. have internal audit system

Have the report of internal auditor considered by statutory auditors.

15) Non Cash transaction

Whether restriction of 8.192 \Rightarrow Complied with.

16) Sec 45 (1A) of RBI Act, 1934

Has the Co. obtained registration from

RBI

Is Co. Carrying \leftarrow Non banking activities.
housing finance

w/o valid certificate of registration.

If it is exempted/unregistered does it fulfill

the criteria for exemption

Does the group to which Co. belongs to more than 1 CCE then indicate no. of CC in the group.

17) Cash losses

Has Co. incurred cash losses \leftarrow $\left. \begin{matrix} CY \\ PY \end{matrix} \right\}$ Give details.

18) Resignation of statutory auditors

Resignation then has the auditors

considered the issue, concerns objectives raised by

Outgoing auditors.

19. Material Uncertainty

If material uncertainty exists, give details

In the opinion of auditor

Whether Co. can meet its liabilities which are due in future.

20) Transfer to CSR fund under schedule VII

Whether any unspent amt of CSR is transferred to a special a/c u/s 135.

21) Qualifications / Adverse Remark^s in other group companies.

If qualifications Adverse Remarks in other group Co.s included in CSR

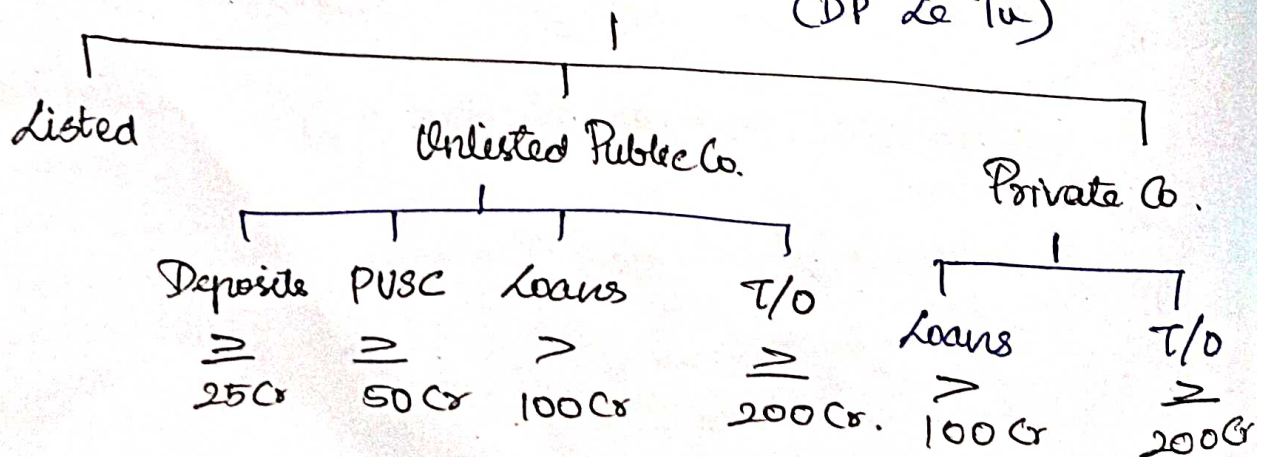
↳ give details of Co.'s / para nos of respective CARO report containing qualification adverse remarks.

ACCOUNTS OF COMPANIES

- 128 → Books of Accounts
- 129 → Financial statements
- 130 → Reopening of accounts.
- 131 → Voluntary Revision of F&BR
- 132 → NAFTA
- 133 → Standard CG to prescribe AS
- 134 → } ONLY
- 135 → } FOR
- 136 → } LAW
- 137 → }
- 138 → Internal Auditors (DP & Tu)

S.138 - Internal auditors

(DP & Tu)



* at any point of time.

* Internal auditors can be any person

* A body corporate can be an internal auditor for another company.

8.133 - CG TO PRESCRIBE AS

As per sec 133 of Companies Act 2013, CG has a power to prescribe auditing standards including any addendum, as recommended by ICAI in consultation with NAFRA

8-130 ⇒ Reopening of Accounts

1. A company can reopen the accounts only if the order is passed by court/Tribunal.

2. Grounds for reopening of accounts in that

The earlier accounts were prepared in a fraudulent manner.

The affairs of the Co. were mismanaged during the relevant period, thereby casting doubt on reliability of FS.

3. Persons eligible to apply for reopening/

Central Govt	Income Tax Authorities	SEBI	Any other statutory regulatory Body or Authority	any person concerned.
--------------	------------------------	------	--	-----------------------

* BOA can open for any of the least 8 years. However if the BOA are kept for more than 8 yrs as per the directions of CG then BOA can be open for any of the such longer period.

Sec 131 - VOLUNTARY REVISION OF FS (OR) Board Report.

* If it appears to the directors of companies the FS of the co. or the board report do not comply with the provision of S. 129 or S. 134 then, they can apply to Tribunal for seeking approval to revise its ~~efforts~~ ^{FS} / BR.

* The Tribunal give notice to CG and IT authorities and shall consider the representations made, if any.

* Copy of Tribunal Order shall be filed with ROC.
* Revision can be made for any of the 3 preceding financial year.

* Revision can be made only once.

* This revision can be used if the FS or BR is sent out to members (or) delivered to ROC.

* The FS or the BR shall state it is the revised FS/BR as the case may be.

See 132 - NATRA

→ The Co will contribute NATRA. It shall consist of chairperson and 15 other members being part time and full time members as may be prescribed.

→ The chairperson and the members who are in full time employment with NATRA shall not be associated any of the firm including related consultancy firm. During the course of appointment and 2 years after ceasing to hold such appointment.

→ If the professional or other misconduct is proved, NATRA will levied penalty as follows:-

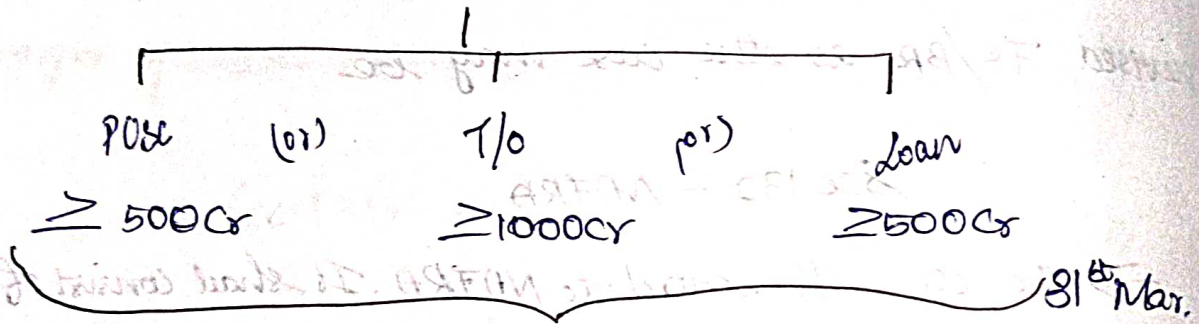
↓	↓
Individual	Firms
Min 1x - Max 5 times of fees	Min 5x - max 10 times of fees received.

→ Debar the mem for min 6 months - max 10 yrs
 firm to be statutory / internal /
 tax / any auditor / registered valuer.

NATRA has the power to investigate the
 auditors of following companies

a) listed Co. in India / Outside India

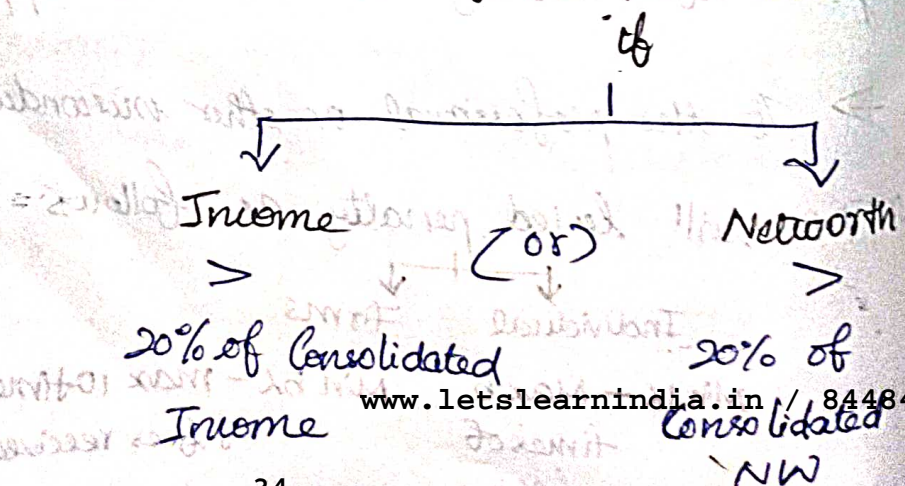
b) Unlisted Public Co.



c) Banking, Insurance, electricity, Gov Co.
 Governed by special act

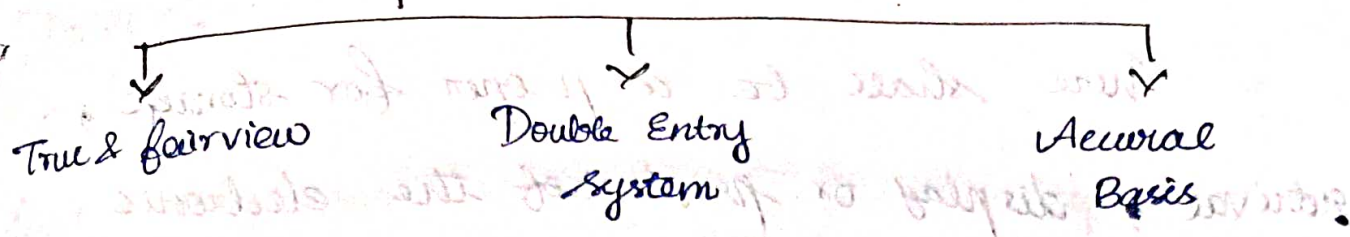
d) any other body corporate or company
 as prescribed by CG in public interest

e) Foreign Subsidiary / Foreign Assoc. of a to d

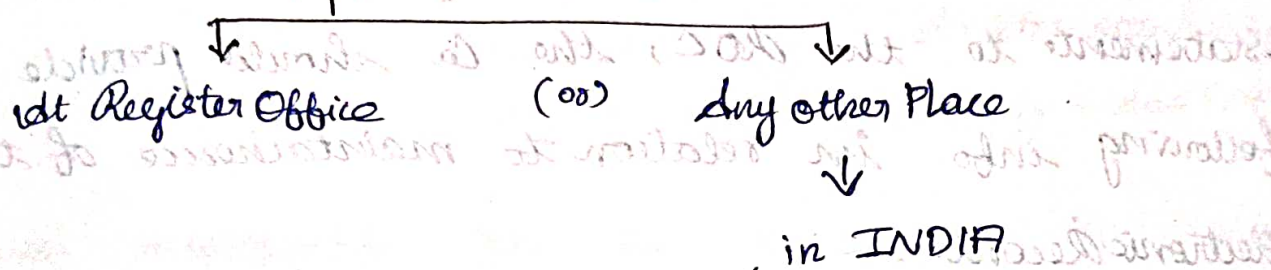


Sec 128 - BOOKS OF ACCOUNTS

* Proper books of accounts



* Place of keeping



* BOA shall pass Board Resolution
BOA → intimate to ROC [Form 7B]
of passing BR in form [Form 7B-5]

* In case of branches, the ~~foreign~~ foreign branches they have to send summarized returns to the head office of quarter intervals.

* BOA can be kept in electronic form it shall remain accessible in India so as to be usable for subsequent reference and shall be capable of being displayed in a legible form.

* Information received from branches shall not

be altered and shall be kept in a manner where it ~~shall~~

shall depict what was originally received from the branches.

There shall be a proper for storage, retrieval, display or printout of the electronic records.

At the time of billing of Annual Financial Statements to the ROC, the Co. should provide the following info. in relation to maintenance of the Electronic Records:-

a) Name of the Service Provider.

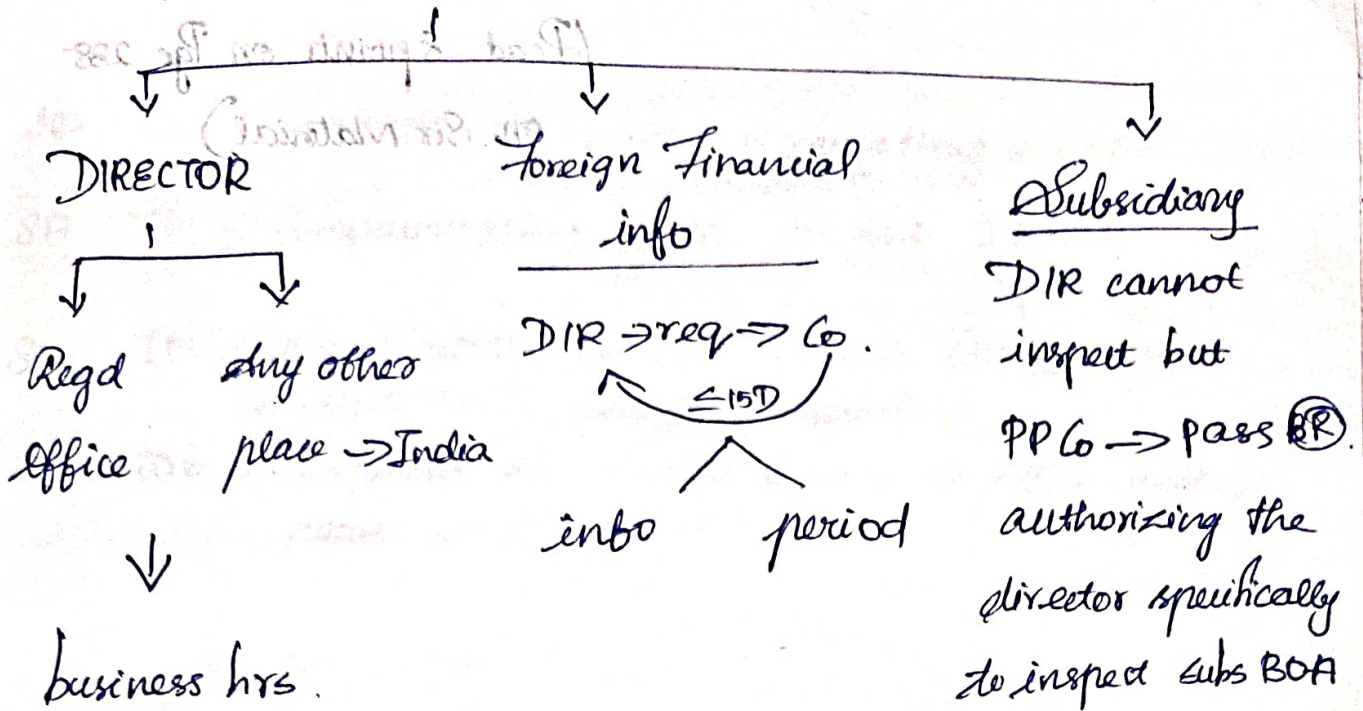
b) Internet Protocol of the Ser. Prov.

c) Location of the Ser. Prov.

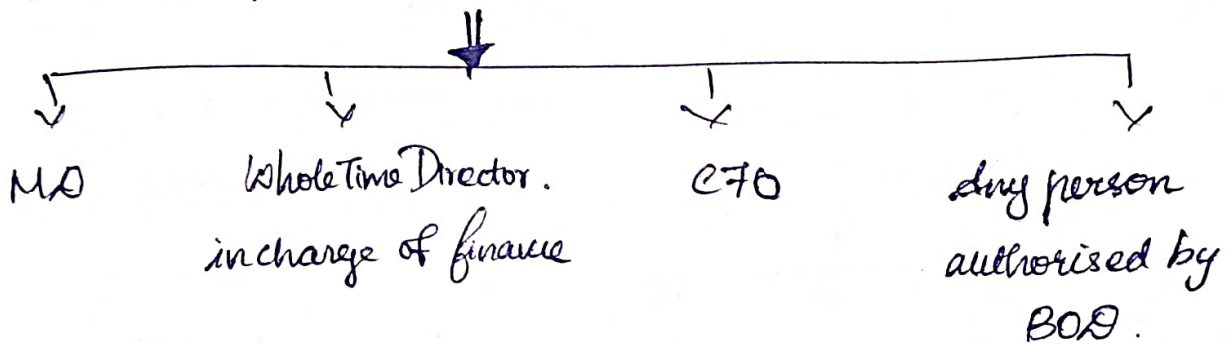
d) Address of cloud.

BOA shall be kept for 8 yrs. If the co. in existence less than 8 yrs, BOA shall be kept for all such years. If CG has ordered investigation then the BOA can be kept for such longer period as directed by CG.

Inspection of BOA - Insolvency - Part 8



Person responsible for Sec-128

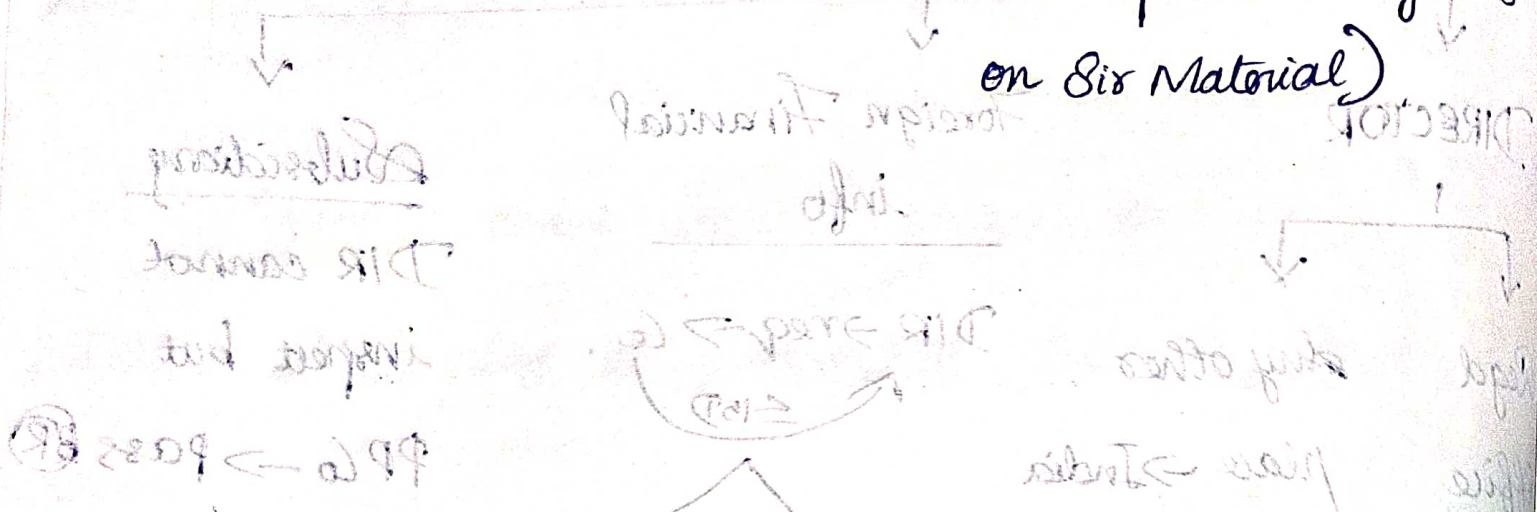


If Sec 128 is contravened: penalty on every officer in default \rightarrow 50K - 5L.

No shareholder/agent of director can expect BOA that is only a director can expect BOA.

8129 - Financial statements

(Read 8 points on Page 238 on Sir Material)

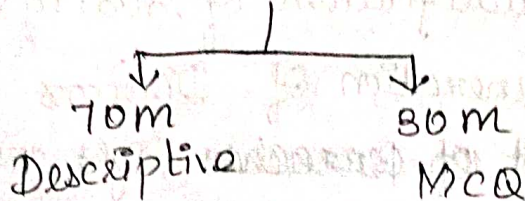


CA - INTER - Paper-6 - "Auditing" & "Assurance" - GI II

Q1 - Incorrect/ Correct = 14 m

$$\frac{7Q \times 2m}{8Q}$$

Q2 to Q6 = Any 5



118/124 m
→ Total On paper marks without choice

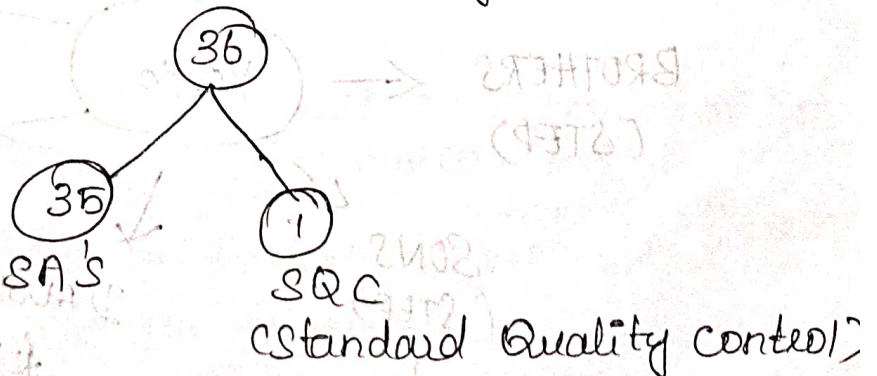
- Auditor
 - Accounts
 - Dividends
- } Inter law
15-20 m

- CARO, 2020 = 4m-6m

- Items of FS
 - Audit of diff entities
- } 10-12 m

- Basic Concepts
 - Nature of Auditing
 - Audit Evidence
 - Documentation
 - Sampling
 - Analytical Proc
- } Balance marks will be covered

Standard Auditing → 25-30 m



"AUDIT & ASSURANCE"

AUDITORS → 8m - 12m

CHAPTER - 1

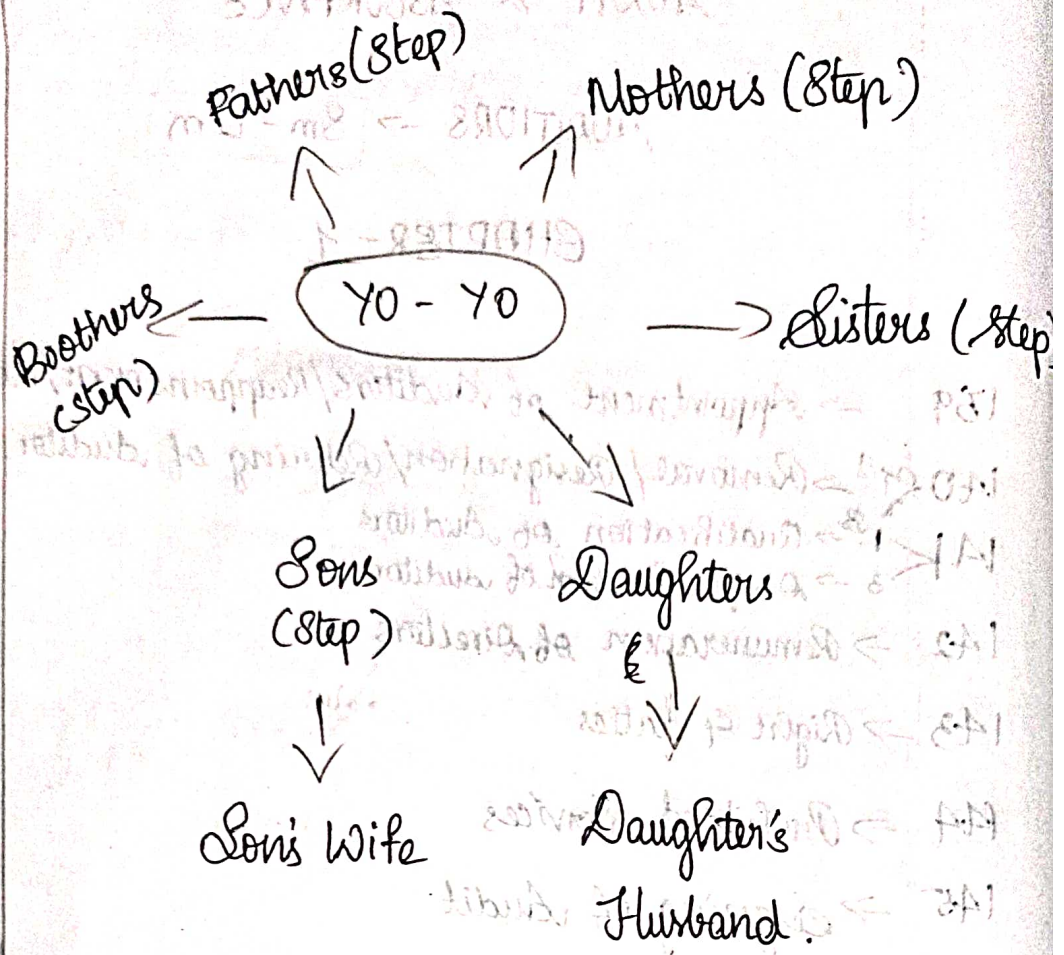
- 139 → Appointment of Auditors / Reappointment / Rotation
- 140 → Removal / Resignation / Retiring of Auditor.
- 141 → Qualification of Auditors
- 141 → Disqualification of Auditors
- 142 → Remuneration of Directors
- 143 → Right & duties
- 144 → Prohibited Services
- 145 → Signing of Audit
- 146 → Right to attend GM
- 147 → Punishment of contravention
- 148 → Cost Audit
- 2(77) → Relative
- 143(12) → Reporting of frauds to CB

1 Relative 2(77)

→ Husband & Wife

→ Members of HUF

→ Others



2. Section 141(1) & 141(a)

Qualification of Auditors

* An individual can be an auditor provided in CA holding certificate of practice issued by the Institutes of Chartered Accountant in India.

* For a firm, majority of partners shall be CA holding certificate of

3. Disqualification of Auditors

Section 141 (3) & 141 (4).

- a) Body Corporate other than LLP
- b) officer / EE (employee of the Company)
- c) Partner / E
- d) Person / firm / Relative

Any security holder INDEBTED GUARANTEE } CHASS
 # Rel > ₹ 5Lac > Rs 5L > Rs 1L }
 # 60 days

e) Person/firm → Business Relationship → CHASS → Profession service, CA Act, 1949 @ ALP → HATHA

f) > 20 Co's
 except → OPC, Small Co., Dormant Co.,
 Pvt Co. → PVSC < ₹ 100 Cr.

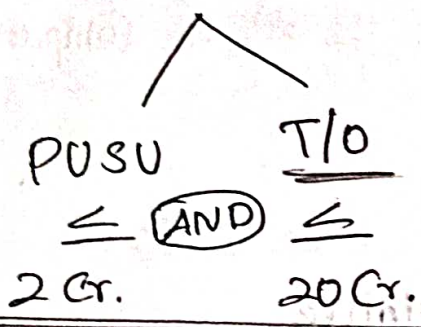
g) Person → Relative → www.ipslearningindia.in 8448448919

h) Convicted for fraud \Rightarrow 10 yrs \neq elapsed.

i) Sec 144 = prohibited services \Rightarrow CHASS

CHASS has to be seen D/I/E

Small Co. = Pvt. Co.



4. Sec 144 - Prohibited Services

Following are the Prohibited Services -

- M - Management Services.
- A - Actuarial Services
- A - Accounts and Book keeping Services
- A - Any other kind of services
- R - Rendering of other ~~services~~ Outsourced Financial Services.
- D - Design and Implementation of any Financial Information System

I - Investment advisory services

I. - Investment banking services.

5. Remuneration of Auditors - Sec 142.

FIRST AUDITOR

SUBSEQUENT
AUDITOR

↓
Fixed by BOD

↓
Fixed by Mem. in

GM
(shareholders of the Co.
who have been an
auditor)

However mem.

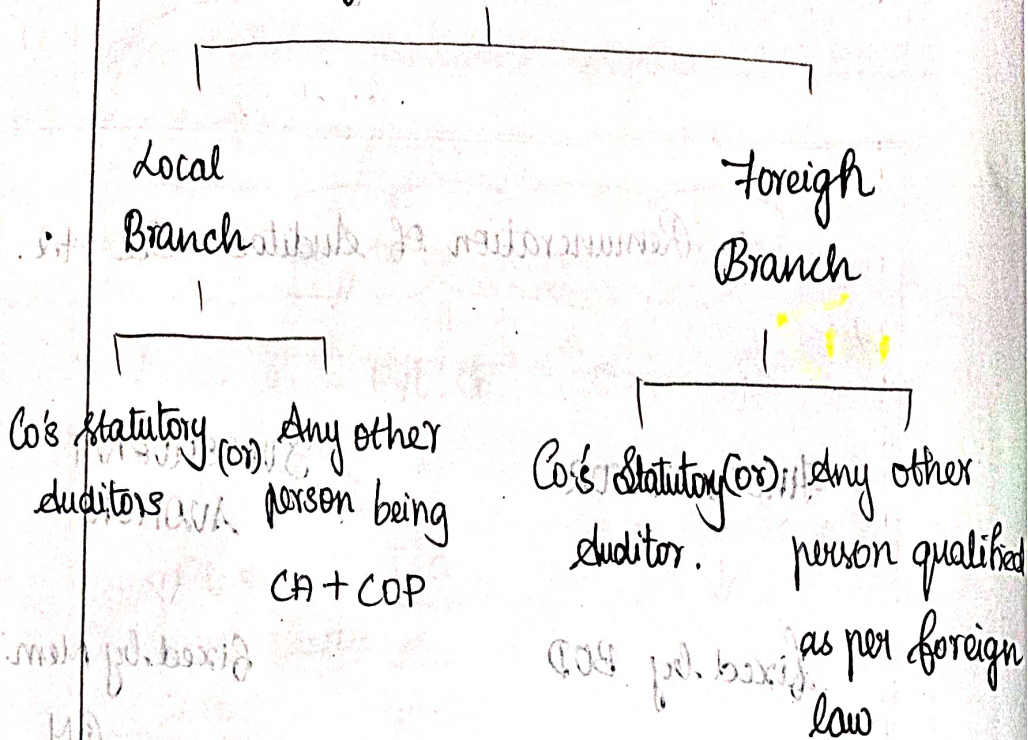
can delegate to
BOD.

* Remuneration will include fees payable to auditor and expenses incurred by auditor if any.

* Remuneration will not include any amount paid for any other services rendered by auditor at the request of Company.

6. Audit of Branches - Sec 143(8)

Following can be branch auditors



The branch auditor will prepare branch audit report and submit it to the statutory auditor.

The powers & duties of branch auditor will be seen as statutory auditor.

As per ~~13~~ Sec 143(12), the branch auditor will report the fraud to the extend it relates to the concerned branch.

7. Sec 143(12) - Reporting of fraud to CG.

1) CA (SA) \rightarrow Audit \rightarrow fraud \rightarrow Audit Committee
2 days - immediately

2) Reply = received

CA \rightarrow report \rightarrow CG \leq 15 days
of receipts of reply
details
reply
Comment.

3) Reply \neq received

CA \rightarrow report \rightarrow CG \leq 15 days
after expiry of 45 days
details
fact of non-receipt of reply.

4) ADT - 4

5) If sec 143(12) = contravened Listed Co. = 5L

(If the auditor is not report within specified period, the penalty will impose on auditor).
other Co. = 1L.

5) CA/CS/CMA

1) The auditor will report to CG only if the amount of fraud is minimum one crore

2) The auditor will report to the fraud to CG

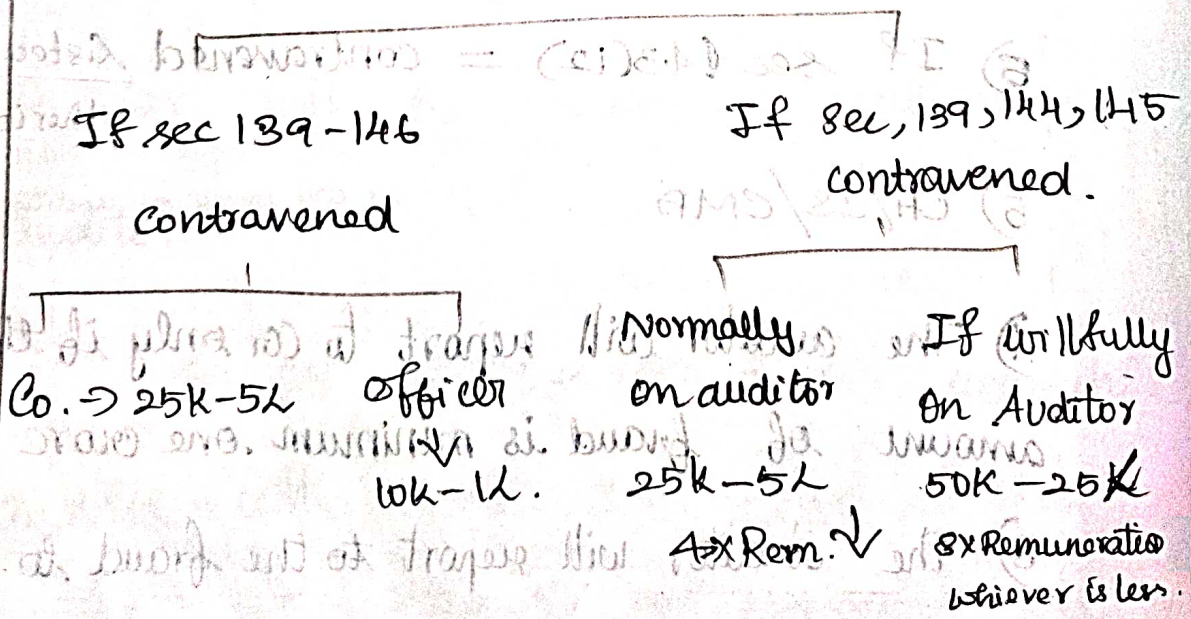
9) He will report the fraud only if the fraud is conducted by Co.'s officers and employees.

8. Sec 145 - Signing of Audit Report

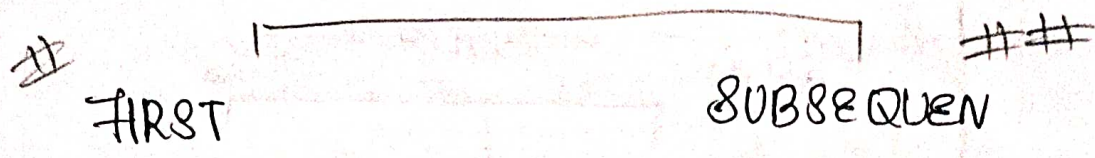
> The auditor has to be signed by statutory auditors of the Company.

> In case of firm, signing has to be done only by the partners who are CAs holding 20%.

9. Penalty



10. Appointment of Auditor - Sec 139



FIRST AUDITOR

Govt Company 139(1)

Non Govt Company 139(6)

→ Comptroller & Auditor
General of India (CAG)

→ BOA ≤ 30 days
of Inorp.

≤ 60 days of Incorporation

→ BOA X

→ CAG X

Mem ≤ 90 days
at EGM

→ BOA ≤ 30 days

→ till next AGM

→ BOA X

Mem ≤ 60 days
at EGM

(Extraordinary General Meeting)

→ till next AGM

(Annual General Meeting)

SUBSEQUENT AUDITOR

Govt Co.

Non Govt Co.

⇒ eAGI \leq 180 days of AGM \Rightarrow Mem at 1st AGM
Commencement of FY by ordinary Resolution
till 6th AGM & thereafter

⇒ till next AGM

⇒ Co. \rightarrow AOT-1 \rightarrow ROC

notice & call cards \leq 15 days

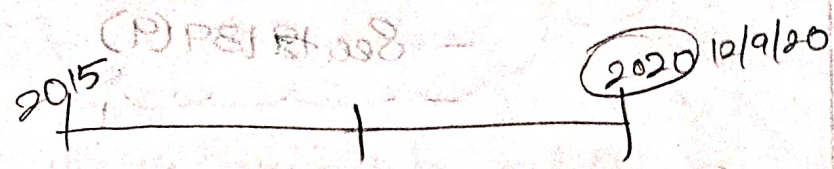
of appointment.

⇒ Co. \rightarrow appt auditor
disclosure not disqual.

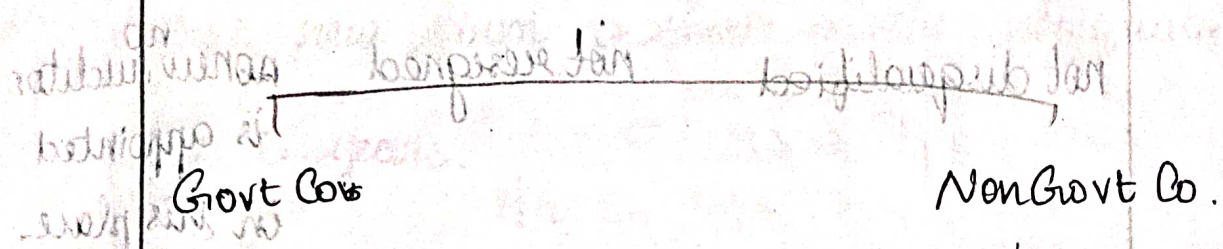
⇒ I = 5 yrs
(Individual)

⇒ Firm = 10 yrs
(2 terms of each)

11. Casual Vacancy Sec 189(8)



SRK
 Died - SRK / Punbeer Kapoor
 ↓
 CV Auditor.



→ CAG < 30 Days of vacancy.

Designation Others.

→ CAG X
 → BOB ≤ B300 ⇒ BOA ≤ 300

BOB ≤ 30 days
 ⇒ till next AGM

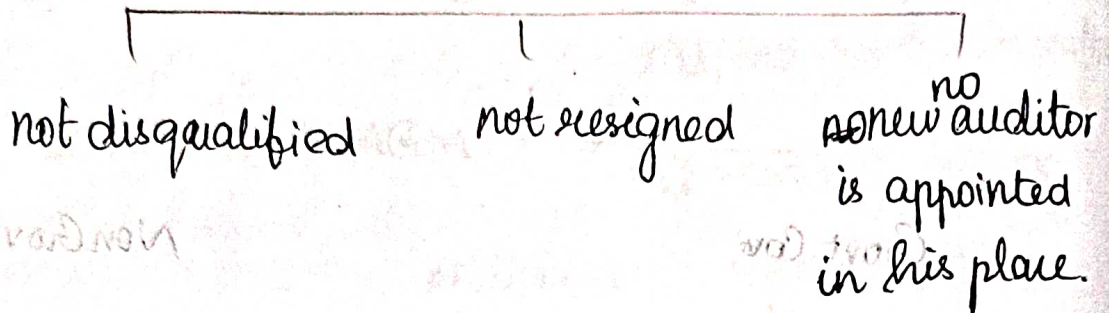
⇒ Mem = confirm the appt ≤ 3m of appt at GM

⇒ till next AGM ⇒ till next AGM

12. Reappointment of retiring auditor

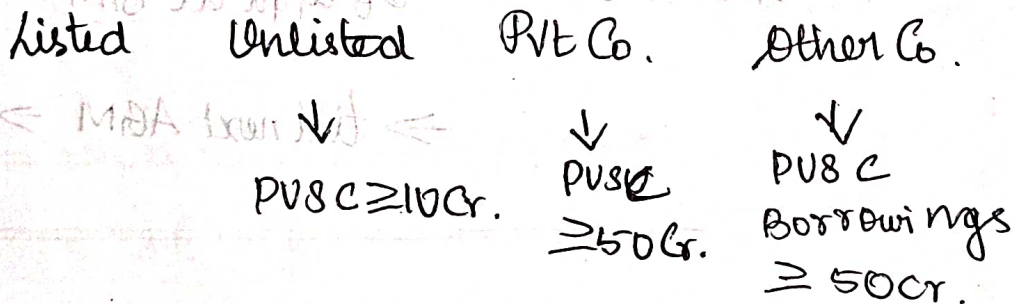
- Sec 139(9)

Retiring auditor may be reappointed if



13. Rotation of Auditor - Sec 139(2), (3), (4)

Rotation



I = 5 yrs CA Monika | Cooling period = 5 yrs.

7 = BSV & Assoc. | Cooling period = 5 yrs.
10 yrs

NA to Small Co., OPC, IFS C ← PVT
Public.

Rules which respect to violation

* If there is a common partner on the date of appointment in the new firm, then that new firm shall also be disqualified for 5 years.

* If a partner who is certifying the financial statements of the company joins another firm and such another firm is also disqualified for 5 years.

* The new audit firm will also be disqualified if it is a part of same network as that of old CTO CA Firm.

Note

for entry (139) } for auditors
for exit (140) }

A. Removal of Auditor - Sec - 140

\downarrow Before expiry of term

\downarrow At AGM

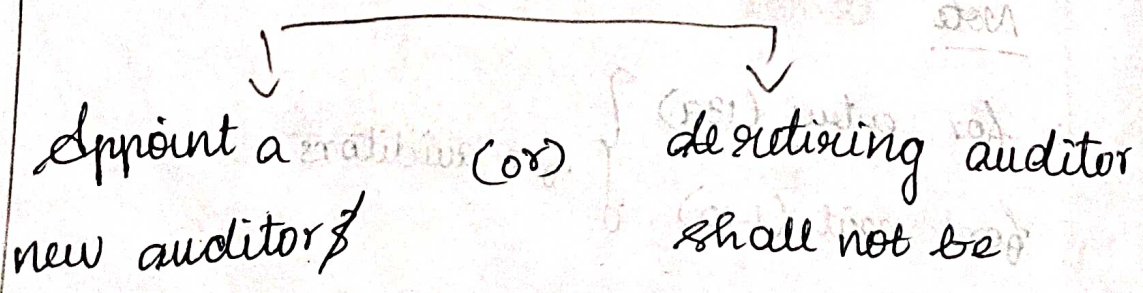
- # \rightarrow BOD \rightarrow BR - BM
Board Resolution Board of members
- \rightarrow Applⁿ to CG \rightarrow ADT 2
 ≤ 30 days of BR
- \rightarrow After CG approval \rightarrow GM
 ≤ 60 days of CG approval
- \rightarrow At GM \rightarrow SR.

\rightarrow Opportunity of being heard.

~~At~~ At AGM:-

* Members will give special notice to the Co. stating that members will give

* stating that



* In case of rotation principle, special notice is not require.

~~At AGM~~
At AGM
=>

=> Rights of retiring auditor

- | | | |
|---------------------------|---|---|
| To make representation of | To request such representation to be circulated among members | To require that representation shall be read at the AGM |
|---------------------------|---|---|

=> It will be the duty of the Company to send the representation to every member of the company.

=> The representation need not be circulated

if It is received too late by the Co. www.letslearnindia.in 8448448919
 Right of representation is being abused by auditor.

→ IB representation is not sent to members, a copy should be filed with ROC

15. Change of Auditor by Tribunal

(Sec 140(5))

1. If the auditor of the Company has acted in the fraudulent manner or has not involve in any fraud, then the tribunal

either suo

modo

(or)

Applⁿ

by Cr

(or)

Applⁿ by

any per other person concerned

will order to change the auditor.

If IB application is made by Cr →

Tribunal pass the order within 15 days

2. The tribunal can pass an order that the auditor shall be disqualified to be appointed as an auditor for 5 years in any company.

3. The auditor will also be liable under section 447.

4. The civil liability will devolve on the entire firm but the criminal liability will devolve on the concerned person who was actually involved in the fraud.

16. Resignation of Auditors

Sec 140(2) & Sec 140(3)

→ The auditor can resign from the Co. before expiring of his term.

→ He has to file ADT-3 with the Co., ROC and CAG (in case of CAG) within 30 days of resignation.

→ If ADT-3 is not filed though auditor will be liable.

Min ₹50000

Remuneration

+500/
day

max. 200000

17. Sec-143 Rights & Duties

Rights

Duties

1) Remuneration - 8.142

2) Access to all BOA

all times
all places

3) ask for info/explⁿ

4) attend GM/revive notice

↳ 8.146

"KT-DIES"

↳ Refer

Pg. 12
(Main book)

① ② ③

Specific
Inquiries

Opinion
78

Reporting
Requirement

Areas

T & F
view

18. Duties w.r.t audit of Govt. Co.

Sec 143(5), (6), (7)

⇒ The CAG has a power to condemn supplementary audit or test audit.

⇒ The Stat. auditor of the Govt. Co. will submit audit report to CAG along with objections & issued by CAG, actions taken thereon and impacts on accounts of the Co.

⇒ Within 60 days of above Report 160 day the CAG will ~~condemn~~ conduct supplement audit either while co. stat. auditor or through any other holding COP. CAGs also has a right to comment upon or supplement the Audit Report.

⇒ Supp. audit report shall be forwarded to every person entitled to copies. of

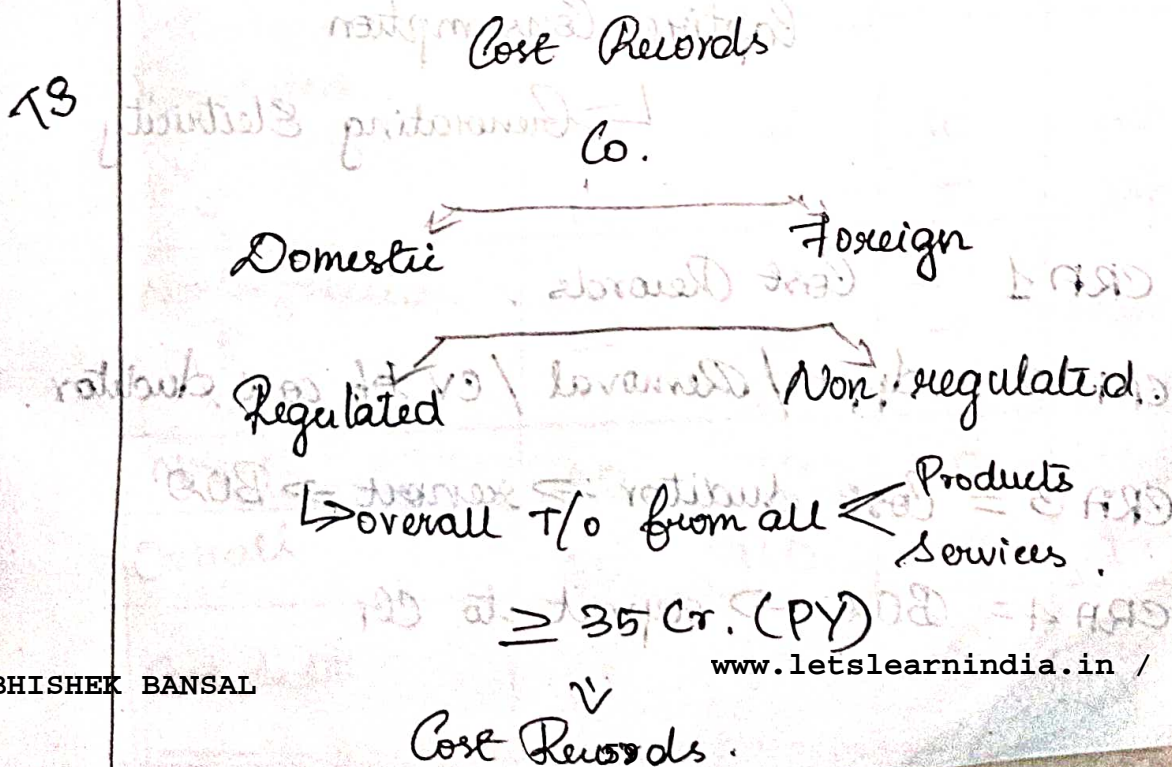
→ The CAG may also conduct test audit. The provisions of CAG Act, 1971 shall apply to report of such test audit.

19. COST AUDIT Sec 148.

→ Cost audit will be conducted by a cost accountant either Individual or Firm.

→ It will be in addition to the statutory audit of the company. The stat. auditor of the co. can't become cost auditor of the company.

Rules 3 of Cost Record Audit Rules, 2014:



Exemption: MICRO/SMALL Ent. as per

MSME Act, 2006.

...

Rule 4 → Cost Audit

48 148

Regulated and Non Regulated

Overall T/O = 50 Cr.

Overall T/O = 100 Cr.

AND

AND

Individual T/O = 25 Cr.

Individual T/O = 85 Cr.

Exemption

Unit in SEZ

Co. ⇒ Revenue from export
> 75% Total Revenue

Captive Consumption

↳ Generating Electricity

CRA 1 = Cost Records

CRA 2 = Appt / Removal / cv of cost Auditor

CRA 3 = Cost Auditor → report → BOD

CRA 4 = BOD → report to CG

Cost Records

	A Ltd	B Ltd	C Ltd.
- Regulated			
X	20	—	—
Y	5	—	—
- Non Regulated			
P	—	30	—
Q	—	12	—
- Other	12	10	40 Cr.
Overall T/O	37 Cr.	52 Cr.	40 Cr.
Cost Records.	✓	✓	X

Rule 4: Cost audit

	A	B	C	D
Regulated				
X	15	—	10	15
Y	10	—	5	20
Non Regulated.				
P	—	20	—	80
Q	—	20	—	10
Others	40	70	40	100
Overall	65	110	55	175

Audit of Different type of Entities

→ For school, collage, theatre, cinema whole.

→ Restaurant, Club, hotel, hospital, NGO

G. - General Points

* Check The auditor has to check the constitution of the entity (ie) if it is run a partnership firm, check partnership deed, if it is run by company, check AOA, MOA

* Evaluate the internal control systems (ICS)

* Obtain certificates from the management like loan confirmation Certificate, Turnover

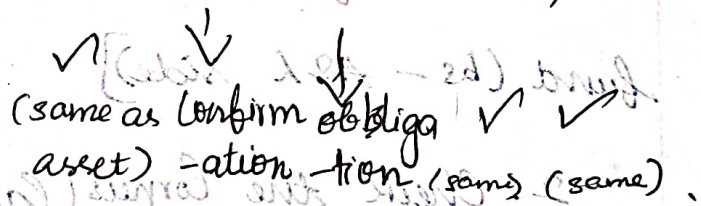
Certificate etc.

A - Assets - VERIFY

- V - check the valuation is as per relevant AS
- E - check the asset is in existence by conducting physical verification
- R - check the asset is the right of the Co. by checking documentary evidence
- I - Check is there any charge on asset. If yes it should be disclosed. Also it should be registered with ROC.
- F - Check whether Schedule III requirements are followed.
- Y - Yo! The auditor should check for frauds.

if any.

L - Liabilities → V E R I F Y



V - same as asset (value the L)

E - Confirmation from / to (3rd parties)

R - Obligation

I - Not applicable

F - same

Y - same

Income & EXPENSES - VOUCH!

V - Check the Voucher like bills, invoice, ..

O - Check is it occurred over the current period of time

U - Check it is approved under competent authority

C - Check proper distinguish is made b/w Cap / Rev. (Exp / Income)

H - Check it has been recorded in BOA

Special points

1. Check whether there is any ear marked investment for car market funds [Tournament fund (bs - A2L side)]

2. Check the Corpus (Capital fund) if any.

3. Check income from special events and corresponding expenses.

Govt (AR)

CG AR

SG AR

② PSU Audit

Govt Co.

Govt Corporation

Govt dep.

51%

SG/CG/both

40%

CG/SG/both

owned by

BHEL, GAIL

IRCTC, LIC

Govt

Police dep,

IT dep.

Auditor appt by CAG.

③ Auditor of Govt Co.

First

Subsequent

CAG \leq 60 days of req.

CAG $<$ 180 days of

CAG x BOA \leq 30d

Comm. of FY

BOA x Members \leq 60d @

till next AGM

Till 1st AGM

⊕ Explain supplementary audit w.r.t

Audit of Govt Co.s

Refer pg. no: 14 (Point 18) - Sec 143(5)(6)(7)

⑤ Short note on CAG

1. CAG is appt by president of India.

2. His salary, terms & condition are fixed by president of India

3. He is appointed for the period of 6 yrs or 65 yrs of age whichever is earlier

4. He can be removed only when each house of parliament decides to do so by majority of votes of minimum 2/3rd members of the house present & voted.

5. Important constitutional provision.

Article: 148 A-149
Appt, removal, powers & duties
of CAG
salary

A-150
On the advice of
CAG, President
to prescribe form relating to
acts of central & state Govt

⑥ Audit of Government



Conducted by CAG

A. Receipts

B. Expenditure

C. Stores & Stocks

Rules & orders

Sanctions

Provision of fund

Propriety Audit

Performance Audit

6.A Explain Audit of Receipts for

1. It is an important compo. of Govt audit.

2. It is conducted by CAG.

3. It shall be the duty of CAG to check the receipts are properly realised, assessed and credited to consolidated funds of India.

4. He should check whether the rules & procedures w.r.t revenue are secured and effective and

there is proper allocation of revenue.

6.B : Exp. Audit

1. It is imp. compo of govt audit

2. It is conducted by CAG

3. He has to check the following

i) Audit against rules & orders

(a) The auditor has to see that the expenditure incurred confirms as per the relevant rules and provisions framed by Competent.

ii) Audit of Sanctions

(a) The auditor has to see that each item of exp. is approved by a competent authority.

iii) Audit against provision of funds.

(a) The auditor should ensure that the provision of fund for every exp. and the amount of such exp. does not exceed the appropriation made.

vi) Propriety

(a) In this, the auditor aims to bring out the cases of improper, avoidable or infructuous expenditure (bogus exp.) even though such exp. expenditure has been incurred as per the rules & regulations existing.

b) He should see that the exp. confirms the principles of propriety.

b) i) The govt officials should treat public money as if its their own money.

b) ii) They should not abuse the authority.

b) iii) Apart from agreed remuneration, no other avenue is kept open for them to earn money.

b) iv) The money should not be used for a particular sec. of the society.

unless

The amt of expend involved is insignificant	A claim for the amt could be enforced in a court of law	The exp is as per the reg. policy / customs	The amt of allowances allowed to meet exp are not on the whole sources of profit to the recipients
---	---	---	--

v) performance audit

a) In performance audit, the auditor cover efficiency, economy and effectiveness of govt. schemes, programs and projects.

b) Efficiency audit looks into that various schemes projects are conducted economically and yielding benefits expected of them.

c) Economy audit looks into whether the entity has to acquired financial, human and physical resources in an economical manner.

d) Effectiveness audit is the appraisal of performance of Govt schemes, projects, programs.

6. C Audit of stores and stocks

It is an important component of govt audit. It is conducted by CAG.

Following should be verified;

V - Check the valuation of stock is proper.

E - Existence of asset owned by Govt

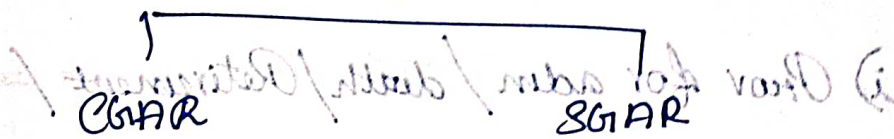
R - Right of asset owned by Govt.

I - Check if there any charge against the assets.

7 Duties of C.A.G. [Read Pg: 122 (Mainbook)]

- i) To compile & submit accounts of CG/SG
- ii) To conduct audit of Govt. Companies, Govt Corporation & Govt dept.
- iii) To conduct audit of receipts of Govt.
- iv) To conduct audit of expenditure of Govt.
- v) To conduct audit of stores & stock of Govt.
- vi) To conduct audit of Grants/loans of Govt.

8. Govt Audit reports



finalised \Rightarrow in parliament \Rightarrow legislative assembly

submitted \Rightarrow President of India \Rightarrow respective governor.

India

9. How will you conduct audit of a partnership firm/L.P.

- (a) Partnership deed ::
- i) PSR .
 - ii) Capital / Int
 - iii) Debt / Int

IV) partners & types

v) Drawings / Int

b) Books of Accounts

c) A/L/I/E (Assets/Liabilities/Incomes/Expenses)

d) Remuneration to partners as per II

IT act, 1961

e) Duration of partnership

f) pending legal cases

h) B/w valuation

i) Prov for adm / death / Retirement /

Dissolution clauses.

j) Prov of Indian Partnership Act, 1932

LLP Act 2008

k) Part. firm ⇒ check registered or not.

(i) : best friend (co)

(ii) Capital / Int

(iii) real (17)

Write short note on audit programme of local body?

→ The local fund audit wing of SGI shall be incharged of the audit of Municipal accounts. So the auditor should check authenticity of his appointment.

→ The auditor while auditing local bodies should report on

a) reporting on fairness of the content and presentation of financial statements.

b) reporting on strength and weakness of system of financial control

c) reporting on adherence to legal and/or administrative requirements

d) reporting on whether the value is being fully received on money spent.

e) Detection and prevention of error, fraud and misuse of resources.

[3rd, 4th, 5th and 6th points are same as expenditure audit 6(B) (i) (ii) (iii) (iv)]

11) Important objectives of local body audit

Same as Ques 10 - point 2 \rightarrow a to e.

12) Salient features of financial administration of local bodies [BAE]

Budgetary Procedures :-

The objective of local ^{bodies} budgetary procedures are financial accountability, expenditure control, funds are raised properly and money are spent by the executive department as per the rules and regulations

Accounting System

Municipal accounting system are followed on annual basis.

Expenditure Control

In Municipal accounts there is a clear demarcation (separation) btw the legislation and

The council whereas executive powers are delegated to the officers. All the matters of regular revenue and expenditure are delegated to the executive wing and special situations like reduction in taxes, refund of security deposits are necessary for legislative wing.

13) Types of grants received by local bodies.

General Purpose Grants

This grants are given to bridge the gap btw the needs and resources of local bodies.

Specific purpose Grants

This grants are given in certain services or performance of certain tasks.

Statutory and Compensatory Grants.

These are granted as compensation for LB on account of loss of revenue on taking over a tax by SG from local Govt.

14) Audit Procedures of hire purchase transaction - lease transaction

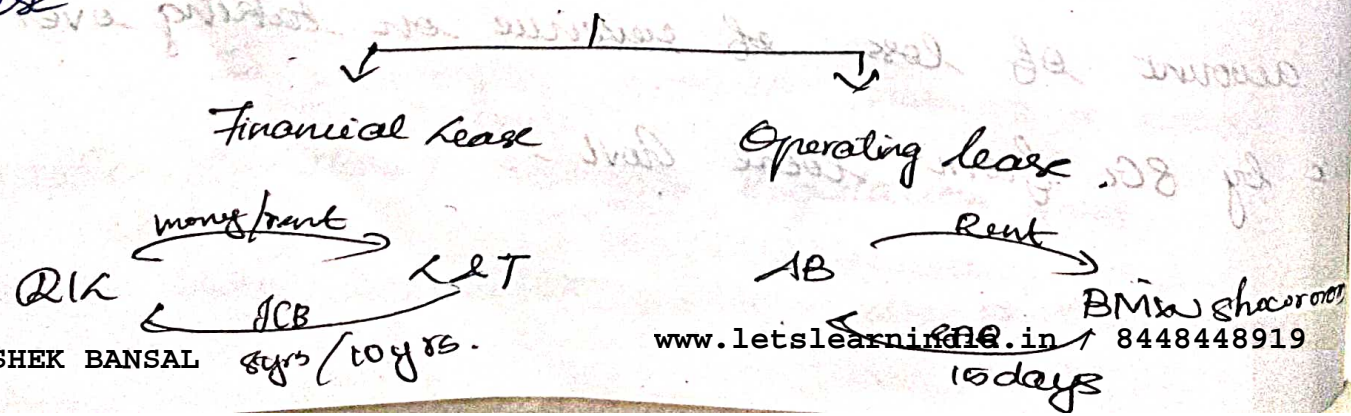
Refer Ques 4 & 5 on main book.

Hire Purchase

Lease Transaction

- | | |
|-----------------------------|-----------------|
| 1) Agreement | ✓ |
| 2) Invoice | x |
| 3) No. of Installments paid | Lease Rent paid |
| 4) Down payment | Advance |
| 5) Repayment schedule | ✓ |
| 6) Physical verification | ✓ |
| 7) Insurance | ✓ |
| 8) Bank statement | ✓ |
| 9) Taxes/ Depreciation | ✓ |

15) Distinguish betw financial lease and operating lease



⇒ Lessee uses the asset for maximum part of life of asset. for smaller part.

⇒ Loan Agreement

Rent agreement

⇒ Risk of obsolescence in with lessee in with lessor.

⇒ Risk & Reward transfer to lessee

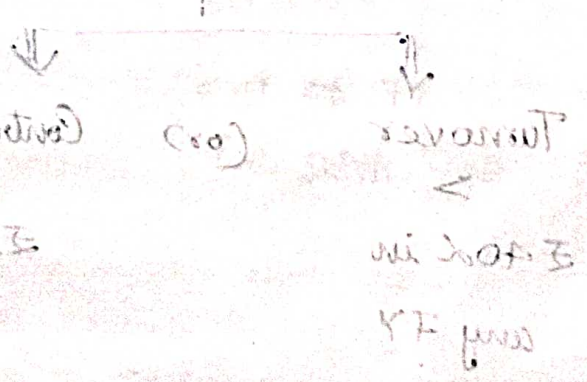
does not get transfer

⇒ Repairs & Maintenance to be borne by lessee

by lessor

⇒ Option to buy

No such option



AUDIT OF CO-OPERATIVE SOCIETY

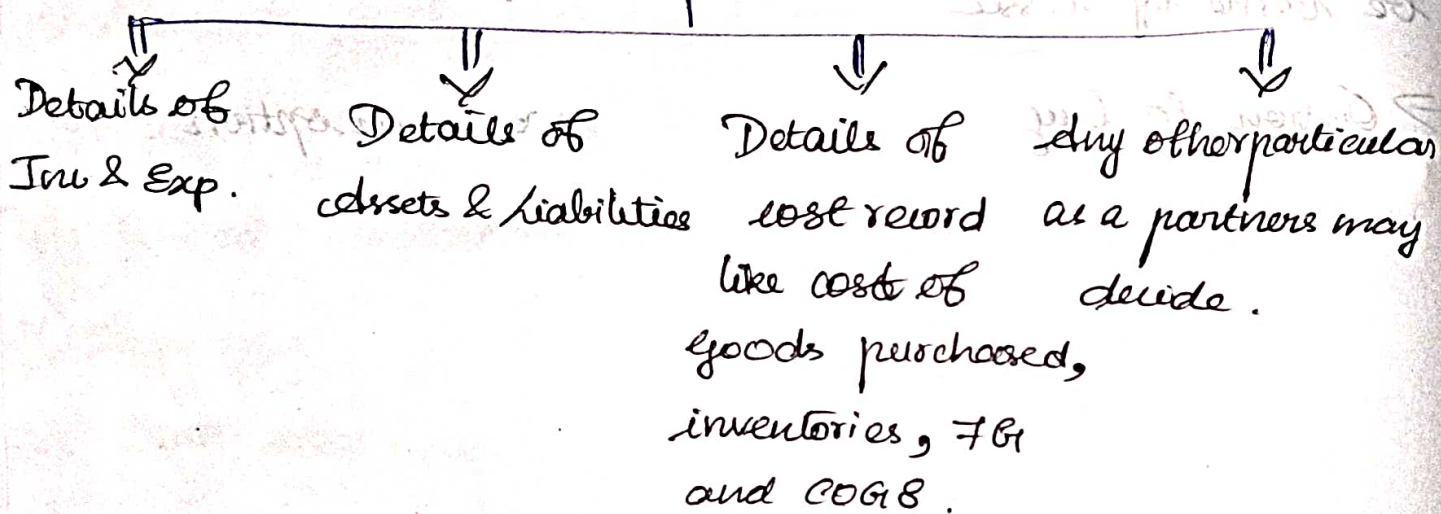
AUDIT OF LLP

AUDIT OF LLP.

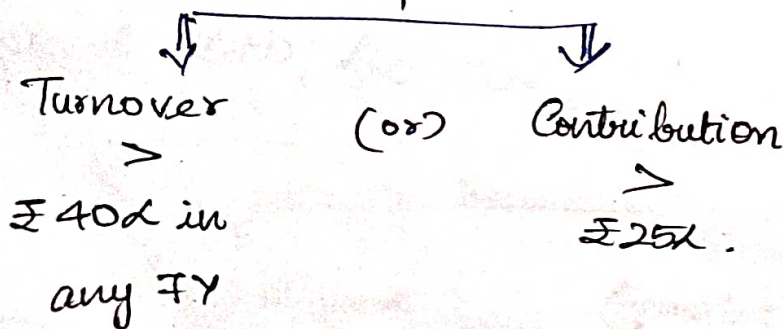
1b) Important points for LLP audit

1) Minimum 2 partners can form LLP and at least 2 partners would be designated partners who would be required to take DPIN (Designated Partner Identification No.).

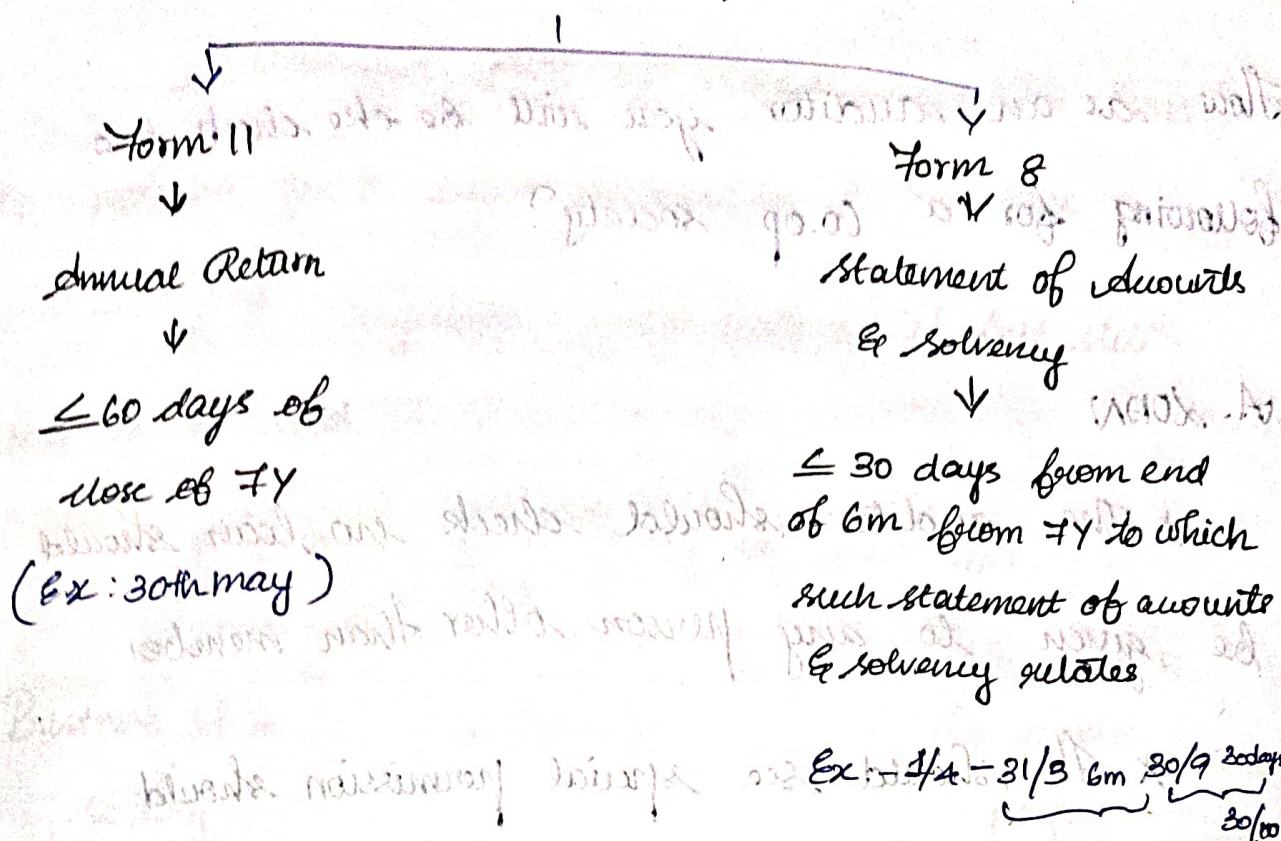
2) Following book shall be maintained by LLP



3) Audit of LLP is mandatory only if

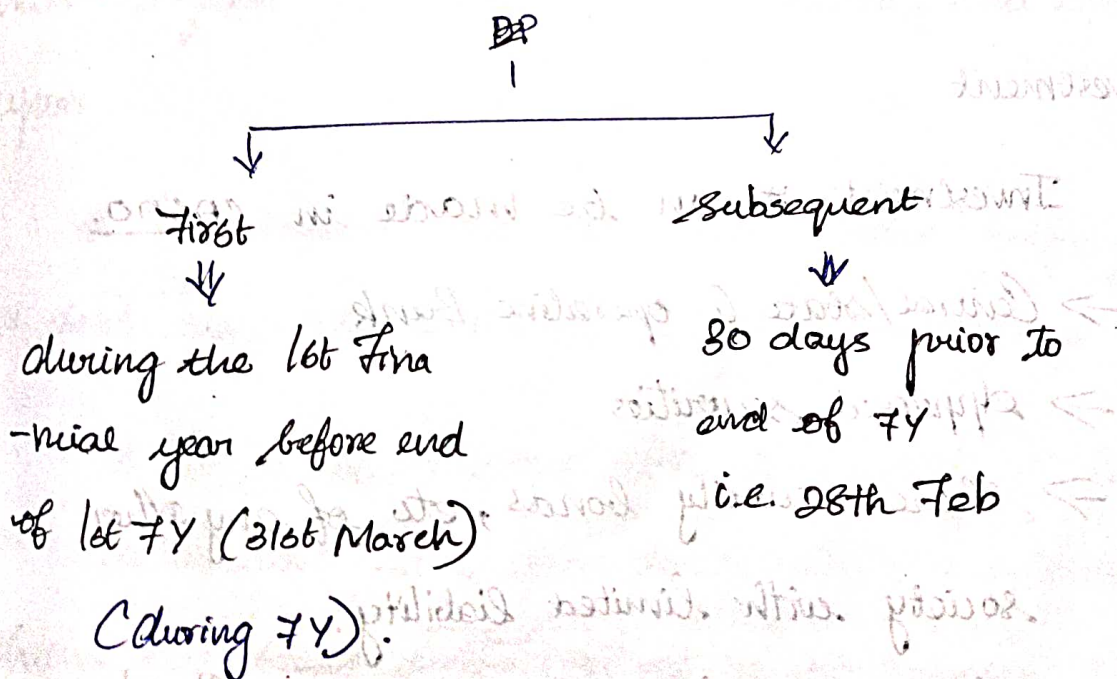


4) Every LLP shall be required to file to ROC



~~Appointment~~

4) Appointment of auditor may be done by designated partners. If OP fails then partner may appoint the auditor.



AUDIT OF CO-OP SOCIETY

How as an auditor you will check the following for a Co.op society?

A. LOAN

* The auditor should check no loan should be given to any person other than member.

* It should see special permission should obtain to grant loan to another society.

* ~~Accepting~~ ~~Accepting~~ loan & deposits for members/other shall be subject to by-laws of society

B. Investment

Investment can be made in CASAO.

→ Central/state Co-operative Bank

→ Approved securities

→ Share security bonds, etc of any other society with limited liability.

→ Any co.op bank if approved by Registrar

→ Other money permitted by Cr/SG

C. DISTRIBUTION OF PROFITS.

* Minimum 25% of profit should be transferred to reserve fund before distribution to members.

* The registrar may reduce it but still 10% is required.

* Reserve fund may be used for.

Business of a
society

* Invest

for public
purpose

D. OVERDUE DEBTS.

* Overdue debts for 6 months to 5 yrs and more than 5 years will have to be classified and reported upon.

* The auditor has to check whether proper provision for debt are made and the same is satisfactory.

* The % of overdue debts to Working Capital and loan advanced will have to be compared to see whether the trend is increasing or decreasing.

* The auditor should see proper provision for recovery or taken and attention regarding court cases.

E. OVERDUE INTEREST

* Overdue interest is excluded from interest outstanding while calculating the profit.

* In that, it is the interest accrued in several accounts of which the amount is overdue.

F. CERTIFICATION OF BAD DEBTS

* Bad debts can be written off against bad debts funds, reserve funds only if its certified as bad either by the auditor or managing committee.

G. ASSETS AND LIABILITIES

* Auditor to see existence, ownership and valuation of assets.

* Fixed assets should be valued at cost less provision for depreciation.

* Current assets should be valued at cost or market value whichever ever is lower.

* All the known liabilities should be brought into account.

H. ADHERENCE TO CO-OP. PRINCIPLES

* Check how far the sales could be effected at lower prices.

* While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds.

* Principle of Propriety audit should be followed.

I. PROVISION AND RULES

* The auditor should point out the non-compliance with cooperative societies act, rules and by-laws.

* He should point out various irregularities, departures, improprieties from the provision of the act, rules & by-laws.

* If the state law contains restriction on payment of dividend or percentage of dividend, the same should be verified and reported by the auditor.

* He should check other provisions like restriction of borrowings, investment of funds etc also are also complied with.

J. MEMBERS REGISTER AND THEIR PASS BOOKS.

* The auditor should verify members passbook regarding the rule given and its repayment.

* It should obtain confirmation of passbooks.

* This checking will be on sample basis which is a matter of judgement of auditor.

K. SPECIAL REPORT TO THE REGISTRAR (Imp. ⓧ)

- * Personal profiting by members of managing committee in transaction of society
- * Deduction of fraud related to expenses, property, purchase of society.
- * Mismanagement like decision against cooperative principles.

* In case of Urban Co-op bank, Disproportionate advance to vested interest groups.

* Cases of Reckless advancing

AUDIT CLASSIFICATION - CLASS:-

The auditor will provide the class to the society. If the society is unsatisfied, it may appeal to registrar and he may direct to review.

2) What are the contents of report?

* All necessary information and explanation is obtained.

* Proper Books of Accounts are maintained

* Accounts give complete (all) information required by the act (complete)

* P&L and B/S are in agreement (Done up) with books of Accounts

* The P&L is giving true & fair view of Profit & loss

* The B/S is giving true & fair view of statement of Affairs.

3) What are the Schedule to the Report - MASTI

* Any material or property belonging to society appearing as doubtful/ bad for recovery.

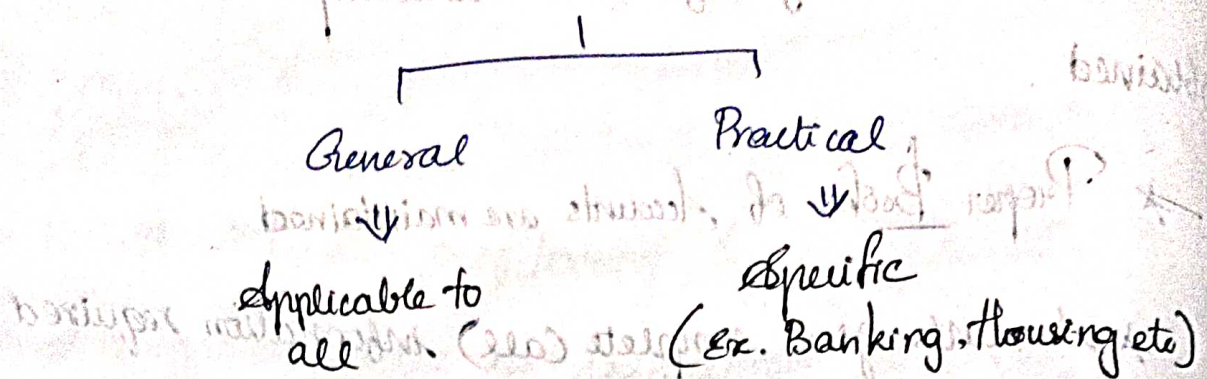
* Any other matter specified by registrar.

* Sums not brought into ac.

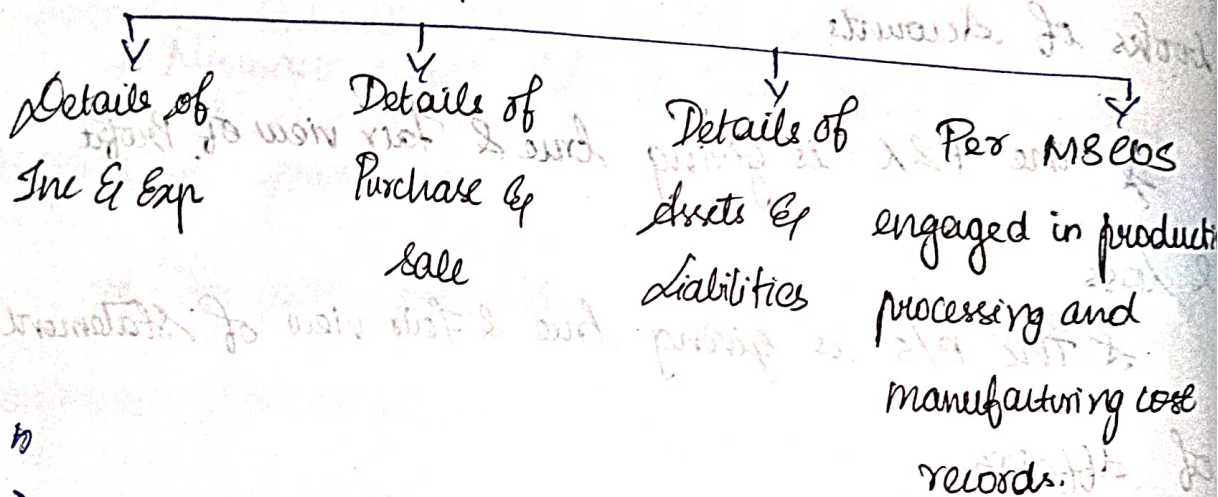
* Transaction contrary to acts, rules & By-laws.

* Material irregularity in expenses/realisation of

He may also have to answer two sets of questionnaire called audit memos



Q) Which BOA are to be verified?



b) Qualification & Disqualification of auditors

Qualification: A chartered accountant under CA Act, 1949

Disqualification: → Body corporate

→ Officer/MSCOS Employee of MSCOS

→ Partner/Employee of Officer/Employee of MSCOS

→ Indebted / Guarantor of amount > ₹1000/-

b) Appointment of auditors

FIRST

SUBSEQUENT

→ BOD \leq 1 month of registration

→ hold office till 1st AGM

→ If BOD fails, mem in

GM will appoint

Member from that meeting until conclusion of next

AGM

Power & Duties of Auditors

Refer Ques 7 Pg no: 72.

When is special audit for MSCOs required?

Refer Ques 9 Pg: 73.

How is inquiry, enquiry and inspection done by Central Registrar?

Refer Qn 10 Pg: 74

15 days - Min gap before inquiry

7 days - Min gap for calling meeting.

2 month - Report to be given by Central Registrar.

10) Donation for Charitable Purpose

The registered society with the approval of registrar may contribute max 10% of the net profit and remaining after compulsory transfer to reserve fund as for any charitable purpose as per sec 2 of Charitable Endowment Act, 1890.

11) Restriction on share holding.

In case of society having limited liability.

An individual mem can hold

max 20% of total no. of shares (AND) the value of such shareholding can be ₹1000.

(above) provision ≠ apply to a registered society (is not)

(ie they can hold more than 20%/₹1000)

→ Auditor has to check the breach of above provision

→ State acts may have different limits. Auditor has to verify both the limits. In case of conflict; central act limit will prevail

CHAPTER - 9

Ques 1

Distinguish between vouching and verification?

Vouching

* It is an examination of transactions

* Checking of P/L items

* It is conducted by checking documentary evidence

* It is done throughout the year

* It is done by Junior staff

Verification

* It is an examination of balances

* Checking of B/S items

* It is conducted by checking documentary evidence and physical verification at regular intervals.

* It is done towards the end of the year.

* It is done by Senior staff or by the auditor himself.

Question 2

How to Vouch

V
o
v
c
A } Refer Audit of different Entity

Notes - Income & Expenses

Sec 143(1) - Check whether the transactions are genuine and not bogus.

Sec 143(1) - Check whether the personal expenses are not charged to the Revenue P/a/c.

Sec 143(12) - Check whether there are any frauds, if yes quality.

Only for "INCOMES" - Check whether the provisions as per AS-9 "REVENUE RECOGNITION"

Borrowing Cost - Check whether the provisions as per AS-16 "BORROWING COST".

Question 3

How to Verify.

V
E
R
I
F
Y

Refer audit of diff. entities notes
- Assets/Liabilities

Question no.: 4

Distinguish btw reserves and provisions.

RESERVES

PROVISIONS

* Appropriation of Profits * charge against profit

* Part of SH funds * Part of Current liability

* Only when there is a profit * when there is a profit/loss

Ex:- General Reserve,
Securities premium, CRR,
etc.

Ex:- Provision for Doubtful
Debt/Tax/Depreciation etc

* Optional

* Mandatory

Question 5

Examples of Capital Expenditure

Examples of Capital Expenditure are :-

→ Material & wages - capital expenditure when expended on the construction of a building or erection of machinery

→ legal expenses - capital expenditure when incurred in connection with the purchase of land or

⇒ Freight - capital exp. when incurred in respect of purchase of P.M.

⇒ Repair - Major repairs of a fixed assets that increases its productivity

⇒ Wages - Wages paid on installation costs incurred in Plant & Machinery.

⇒ Interest - Interest paid for the qualification period as per AS-16 i.e. before the asset is constructed.

Question 6

Utilisation of Securities Premium Account

As per sec-52 of the Companies Act, 2013, the Securities premium can be utilised only for following five purposes:

R: Redemption of Preference shares and debentures

P: Writing off Preliminary expenses.

IS: Writing off shares and debentures issue expenses.

BINDAS: Bonus shares

BANBA: Buy back shares $\frac{1}{5}$ of 68 of Companies

Question 7

Prohibition on Issue of shares at discount - Sect 53

1) If a company issues shares at discount it shall be void.

2) Sec - 53 contravened then the penalty will be on company & its officers who is ⁱⁿ default,

₹ 5 lacs
or
Amount raised by
Discount issued } whichever is less
(+)
Refund the amt
@ 12% p.a.

Exceptions :-

i) Sweat Equity shares

- It can be issued at discount

ii) Company may issue shares at discount to its creditors when the debt is converted into shares as per the statutory resolution plan or debt restructuring scheme in accordance with guidelines of RBI.

Question 8

Sweat Equity Shares - Section 54

Some Companies may issue sweat equity shares at discount or for consideration other than cash to their employees or directors for their value addition, Intellectual property, technical know-how.

Conditions :-

S - Shares should be of a same class already issued.

W - When? Anytime.

E - Employee and directors details like no. of shares, current market price, consideration if any and class should be disclosed in the resolution.

A - authorised by special Resolution by SHS.

T - Terms and Conditions: listed Co. - SEBI

Not listed - CG Rules.

Amendment : The company can issue Sweat shares for max. 15% of its paid up

equity share capital in a year or share of

₹5 crores whichever is higher subject to maximum 25% of paid up share capital at any time

However a startup company make issue of sweat equity shares not of max. 50% of its paid up share capital upto ten years from the date of incorporation.

Question 9

Buy Back of Shares: Sources are Free reserves, Securities premium, proceeds of fresh issues.

* A company can buy back max. 25% of its fully paid up equity share capital.

* It should be authorised by AOA

* Special Resolution is required for buy back. However the BB is upto 10% PUSC, reserves and only BR is required.

* Entire BB should be completed within 12 months of the resolution.

* The Co. cannot issue same class of shares for next 6 months.

* Co. shall physically destroyed such as

7 days of completion of buy back

* After BB, the co. shall maintain a debt equity ratio of 2:1

Question 10

Bonus shares - Sec 63

→ It should be authorised by AOA.

→ Ordinary Resolution is required for bonus shares

→ Bonus shares can be issued out of Sec.

Premium, free reserves & Capital Redemption Reserves

→ Bonus shares cannot be issued if the Co. has defaulted in payment of loans, public deposits, taxes, statutory dues to employees

→ Bonus share can be issued only to existence members of the Co.

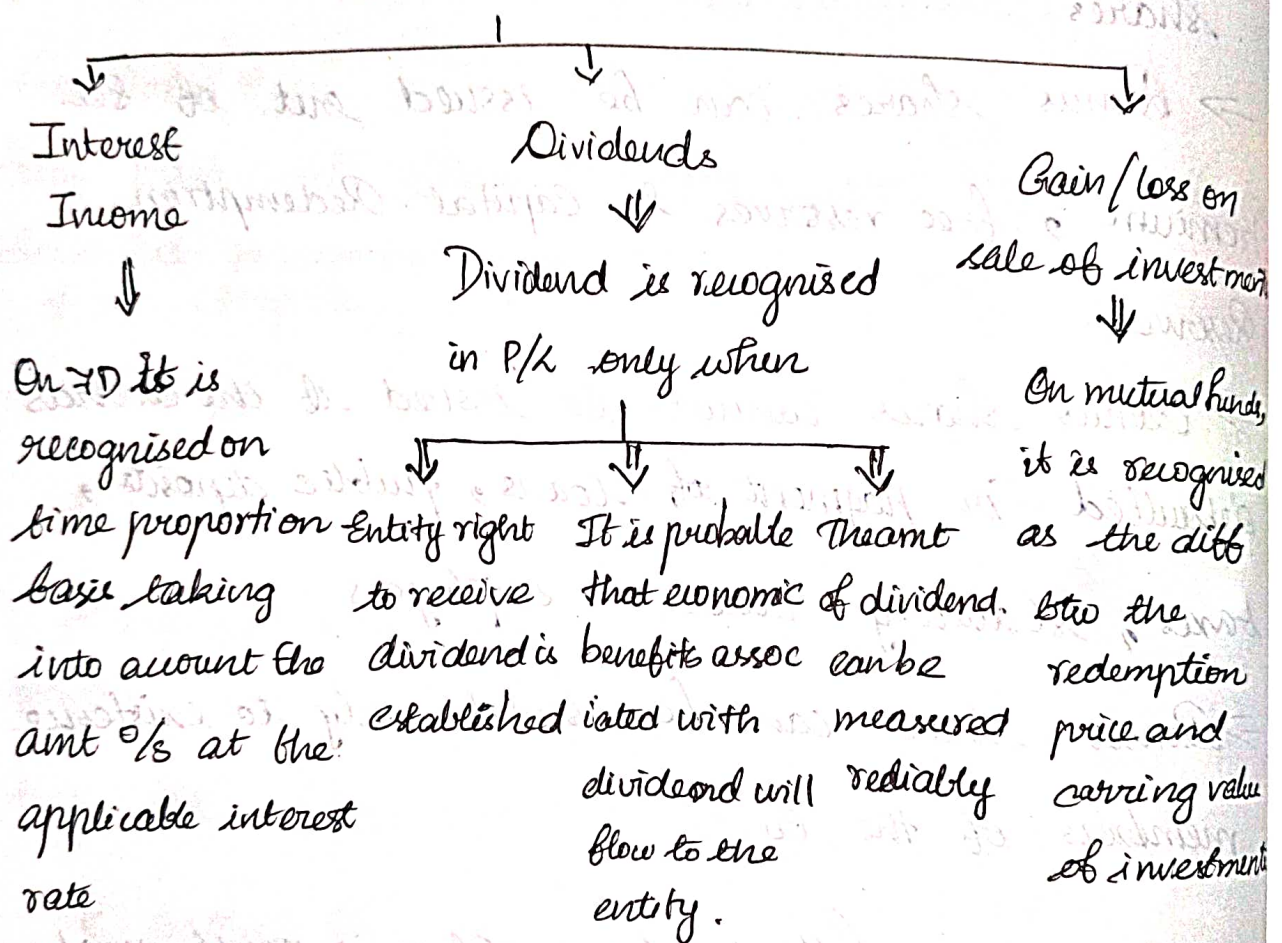
→ It must be fully paid up. If it is partly paid up it must be made fully paid up before issue of bonus shares

→ Bonus shares shall not be ^{issued} in lieu of

Question 11

Explain other income

Any form of income which is earned by the entity which is not linked to entities core business operations is classified as other income. These are



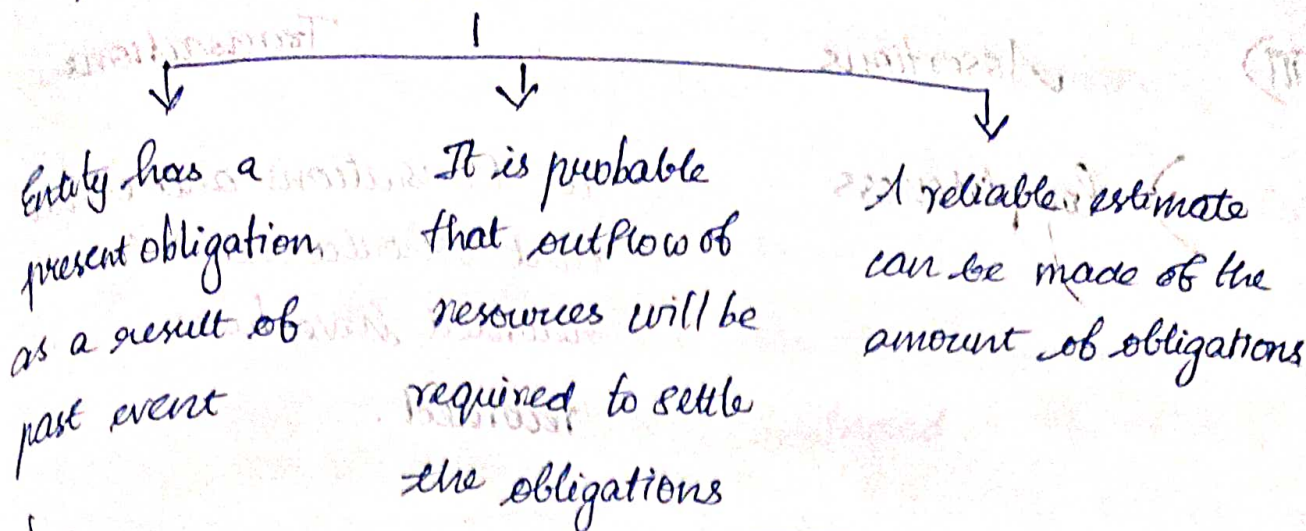
Question 12

Distinguish b/w Provision & Contingent Liabilities

(A) Provisions

i) It is a liability which can be measured by using a substantial degree of estimation.

ii) It is recognised when



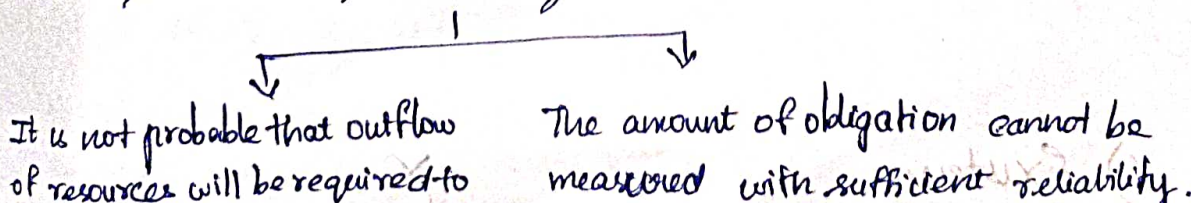
If the above conditions are not satisfied, no provision is required.

3) Example: Provision for litigations, provisions for warranties.

(B) Contingent liability.

i) It is a possible obligation ^{that} arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of uncertain future events not wholly within the control of the entity

ii) It is a present obligation that arises from past events but it not recognised becoz



iii) Assertions Transactions

1) Completeness

all transactions and events that should have been recorded have been recorded.

2) Accuracy

all amounts and other data relating to recorded transactions and events have been recorded appropriately.

3) Occurrence

all transactions & events that have been recorded have occurred and pertain to entity.

4) Classification

transactions & events have been recorded in proper accounts.

5) Valuation

X

6) Existence

X

7) Balance

all assets, liabilities and equity interest that should have been recorded have been recorded.

8) Disclosures

all disclosures that should have been included in the FS have been included.

all assets, liabilities have been recorded appropriately

all financial and other info. are disclosed fairly and at appropriate amounts.

X

all events, transactions and other matters which are disclosed pertain to the entity.

X

the financial information is appropriately presented and disclosures are clearly expressed.

all assets, liabilities and equity interest that are included in FS are appropriately recorded.

The FS & other info. are disclosed at appropriate amounts.

all assets, liabilities & equity interest exists.

X

Assertions	Transaction	Transactions
<p>1) Rights & Obligations</p> <p>Ownership, recorded, correct</p>		<p>Existence, completeness</p>

Account balance

entity holds rights to assets & the liabilities are actual obligations of the entity.

Disclosures

all events, transactions & other info. which have occurred pertain to the entity.

Assertions

Transact

Transactions

1) Rights & Obligations

X

Question 13

Disclosure required as per Schedule III

1) Reserves & surplus

EQUITY AND LIABILITIES

- SHAREHOLDER'S FUND

- RESERVES & SURPLUS

- Capital Reserves xxx
- Capital Redemption Reserves xxx
- Securities premium Reserves xxx
- Debenture Redemption Res. xxx
- Revaluation Reserve xxx
- Share Options % & %c xxx
- Other Reserves xxx
- Surplus xxx

Additions & Deductions since last balance sheet should be shown under each of the specified heads.

2) Long Term Borrowings.

EQUITY AND LIABILITIES

- NON CURRENT LIABILITIES

- LONG TERM BORROWINGS

(a) Bonds / debentures

xxx

(b) Term loans

(A) from banks

xxx

(B) from other parties

xxx

(c) Deferred payment liabilities

xxx

(d) Deposits

xxx

(e) Loans and advances from related parties.

xxx

(f) Long term maturities of finance lease obligations

xxx

(g) Other loans and obligations

xxx

ii) Borrowing shall be classified as secured and

unsecured. nature of securities shall be provided.

iii) xxx

3) Short term borrowings

EQUITY AND LIABILITIES

- CURRENT LIABILITIES

- SHORT TERM BORROWINGS.

a) loans repayable on demand

(A) from banks

(B) from other parties

b) loans and advances from related parties

c) Deposits

d) Other loan and advances

xxx
xxx
xxx
xxx
i) Borrowings shall further be sub classified as secured and unsecured.

A) Other Current liabilities.

EQUITY AND LIABILITIES

- CURRENT LIABILITIES

- OTHER CURRENT LIABILITIES

a) Current maturities of finance lease obligations
xxx

b) Interest accrued but not due on borrowings
xxx

c) Interest accrued and due on borrowings.

- d) Income received in advance xxx
- e) Unpaid dividends xxx
- f) Application money received for allotment of securities and due for refund xxx
- g) Unpaid matured deposits and interest accrued thereon xxx
- h) Unpaid matured debentures and interest accrued thereon xxx
- i) Other payables. xxx

5) Tangible assets.

ASSETS

- NON CURRENT ASSETS

- PPE & ~~INT~~ INTANGIBLE ASSETS

PPE

- a) Land xxx
- b) Buildings xxx
- c) Plant & Equipment xxx
- d) Furniture & fixtures xxx
- e) Vehicles xxx
- f) Office equipment xxx
- g) Others xxx

ii) Assets under lease shall be separately

specified under each class of asset.

6) Intangible assets.

ASSETS

- NON CURRENT ASSETS

- PPE AND INTANGIBLE ASSETS

- INTANGIBLE ASSETS.

(a) Goodwill xxx

(b) Brands/trademarks xxx

(c) Computer software xxx

(d) Mastheads and
publishing titles xxx

(e) Mining rights xxx

(f) Copyrights and patents
and other intellectual
property rights, services
and operating rights xxx

(g) Receipts, formula, models,
designs & prototypes xxx

(h) License & Franchise xxx

(i) Others xxx

→ Non Current Assets

ASSETS

- NON CURRENT ASSETS

- NON CURRENT INVESTMENTS shall be classified as trade investments and other investments and further classified as:

- a) Investment property xxx
- b) Investment in Equity Investments xxx
- c) Investment in preference shares xxx
- d) Investments in Govt or trust securities xxx
- e) Invests in debentures or bonds xxx
- f) Invests in Mutual Funds xxx
- g) Investments in partnership firms xxx
- h) Other non-current investments xxx
- i) Long term loan & advances.

ASSETS

- NON CURRENT ASSETS

- LONG TERM LOANS & ADVANCES

- (a) Capital Advances xxx
- (b) Loans & advances to related parties xxx
- (c) Other loans & advances xxx

ii) The above shall also be separately sub-classified

as:

a) Secured, considered goods

b) Unsecured, considered goods

c) Doubtful.

iii) Allowances for bad & doubtful loans and advance shall be disclosed under the relevant heads separately.

9) Current Investments

ASSETS

2 CURRENT ASSETS

XXX - CURRENT INVESTMENTS

Current investments can be classified as same as to the of annex 7.

10) INVENTORIES

ASSETS

- CURRENT ASSETS

XXX - INVENTORIES

i) Inventories shall be classified as

a) Raw materials

b) Work in progress

12) Cash & cash equivalents

ASSETS

- CURRENT LIABILITIES

- CASH AND CASH EQUIVALENTS

a) Balances with banks

b) Cheques, drafts on hand

c) Cash on hand

d) Others.

ii) Earmarked balance with banks shall be separately disclosed

iii) Balance with bank held as margin money shall be disclosed

iv) Balance Bank deposits with more than 12 months shall be separately disclosed.

13) Short term loans & advances

ASSETS

- CURRENT ASSETS

- Short-term loans and advances

i) Short term advances and loans shall be classified

a) Loans and advances to related parties

b) Others.

i) The above shall be sub-classified as:

a) Secured, considered good;

b) Unsecured, considered good;

c) Doubtful.

ii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(A) Contingent liabilities & Commitments.

i) Contingent liabilities shall be classified as:

a) Claims against the company not acknowledged as debts

b) Guarantees

c) Other money for which the company is contingently liable.

ii) Commitments shall be classified as

a) Estimated amount of contracts remaining to be executed on capital account and not provided

b) Uncalled liability on shares and other investments partly paid;

c) Other commitments (specify nature).

Refer six amendments - Pg 9.101 (ISM)

Refer ~~two~~ 10, 2, 5, 10 - Pg 9.104 (ISM)

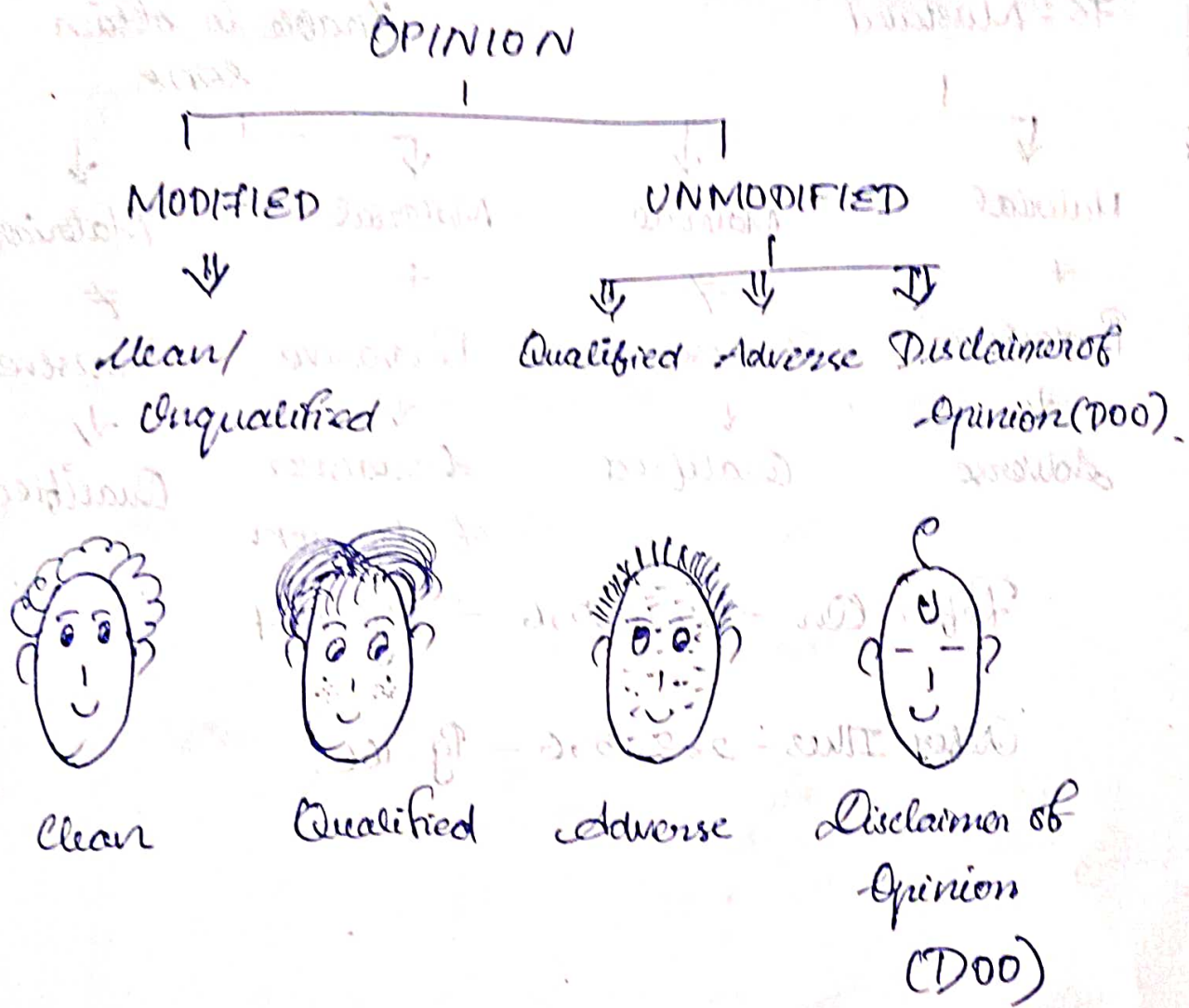
Refer ques 6 - Pg 9.106 (ISM)

Refer A, B, E, F, I, K, d, R, T, V, W, X, Y, Z
(main book) - Pg-312

Chapter 8 - Audit reports (2m-6m)

- SA 700 ⇒ Forming an opinion & reporting on FS
- SA 701 ⇒ Communicating KRM in the IAR
- SA 705 ⇒ Modification to the opinion in the independent auditors report
- SA 706 ⇒ Emphasis of Matters & para & other matters para in the IAR.

SA - 700 ⇒ Forming an opinion
and reporting on FS.

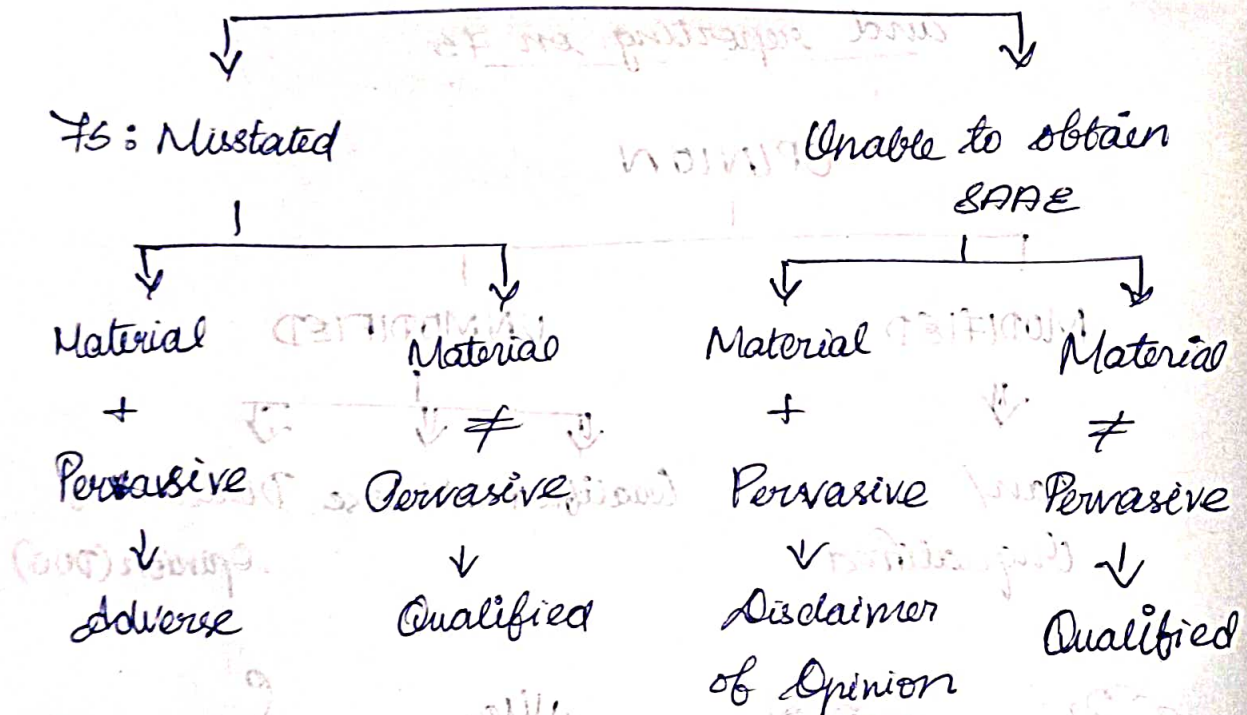


Refer Qn 4, 5, 6 - Pg 150 main book

Refer title, address, Auditor's Opinion,
Basis of Opinion - Pg: 151

SA-705 ⇒ Modification to the
Opinion in the Independent's Auditor's Report

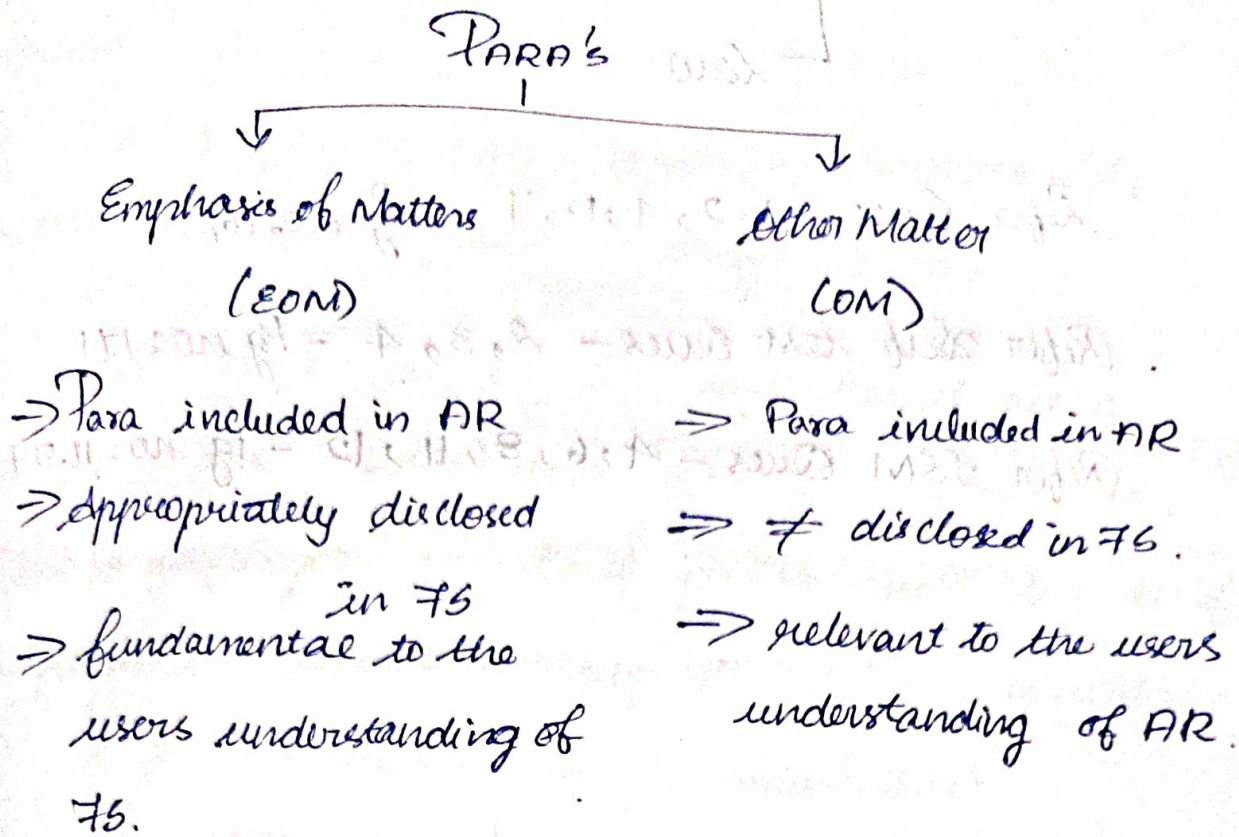
Modification



Refer Qn - 1, 2, 4, 5, 6 - Pg: 164

Refer Illus - 2, 3, 5, 6 - Pg: 166

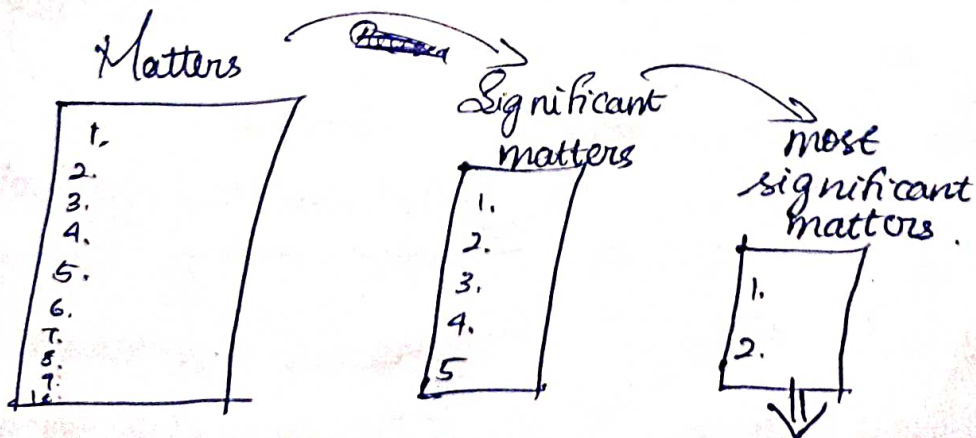
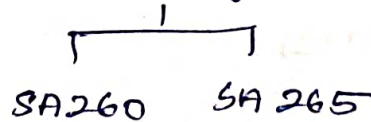
SA = 106 \Rightarrow Emphasis of Matter Paragraph & Other matters paragraph in the independent auditors Report



Refer Ques 2,3 - Pg no: 169.

SA 101 \Rightarrow Communicating KAM in the IAR.

Auditors $\xrightarrow{\text{communicates}}$ TCWG/management



2) Applicable - Listed Co.

Otherwise decides to communicate.
Law

Refer Ques - 1, 2, 4, 5, 7 - Pg no: 161

Refer Self test Ques - 2, 3, 4 - Pg no: 171

Refer ISM Ques - 4, 6, 8, 11, 12 - Pg no: 11.54

1) What is Analytical Procedure?

→ Evaluation of Financial Info. through analysis of *for pa* plausible relationship among both financial and non financial data.

→ Analytical procedures also encompass such investigation which is necessary of identified fluctuations or relationships which are inconsistent with other relevant information or which differs from expected value by the significant amount

→ The auditor shall design and perform analytical procedures near the end of the audit to assist the auditor while forming *epi* overall conclusion as to whether the *fs* are consistent with the auditor's understanding of the entity.

→ AP includes consideration of comparison of entity's financial info. with
for eg:-

⇒ Prior period

⇒ Anticipated results

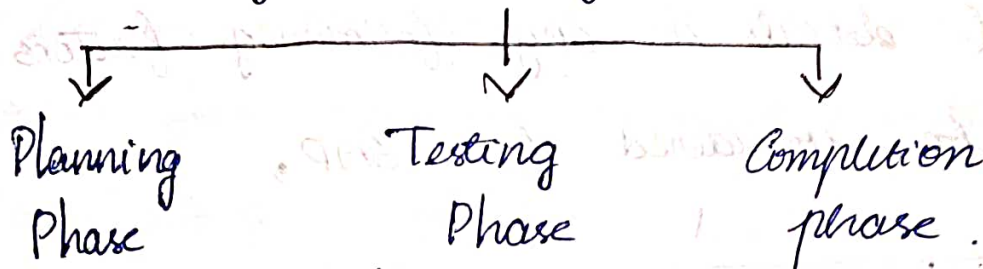
⇒ Similar industry information.

⇒ AP also includes consideration of relationships among elements of financial info. to conform to a predictable pattern btw financial info & non fin. info.

2) Timing of Analytical Procedures.

- AP are used in all phase of audit.

- Timing of Analytical Procedures



- In planning phase AP assist the auditor in understanding in client's business ^{and} in

identifying area of potential risk by indicating the aspects and developments in entities business of which he was previously unaware.

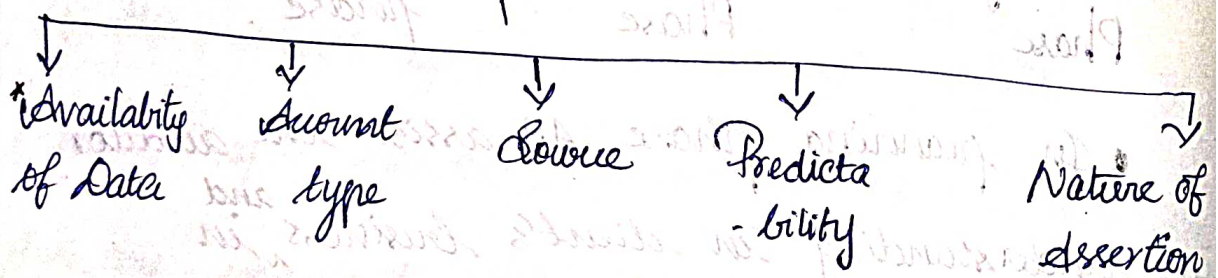
• This info. helps the auditor in determining the nature, timing and extent of other audit procedures.

• AP's in planning the audit uses both Fin. and non Fin. info.

3) How are AP's used as substantive test?

- SREA.

* Determine the suitability of particular substantive analytical procedures taking into account of risks of material misstatement (ROMM) and test of details if any, following factors should be considered for SAP,



* Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed. Reliability of data can be

evaluated by following,

Source of info. available
Eg: info will be more reliable if its obtain outside the entity

Comparability of the info. available
Eg: broad industry data can be used to compare entity's product.

Nature & relevance of the info. available
Eg: Whether budgets have been established as a result to be expected rather than goals to be achieved.

Control over the preparation of the info. available
Eg: Controls over the preparing, reviewing and maintenance of budget.

* Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is precise to identify misstatement which may cause FS to be materially misstated.

* Determine the amount of difference of recorded amounts from expected values that is acceptable without further investigation.

4) Investigating the results of AP.

If APs are performed as per SA-520 which identify fluctuations or relationships that are inconsistent with other info. or which differ from expected by a significant amount, then the auditor shall investigate such differences by

Inquire with management and obtain appropriate audit evidence relating to management's responses.

Perform other audit procedures as necessary in the circumstances.

5) Techniques used by auditor to obtain SAAE while using GAP

Trend Analysis



→ It is most common used technique
→ It is a comparison of current data with prior period balance or with a trending two or more prior period balances.

Ratio Analysis



→ It is used for analysing asset, liability, revenue, expense amount.
→ It can be compared over time or to the ratios of separate entities within the group or with the ratios of other Co.s in the same industry.

Reasonableness

Test



→ Unlike trend analysis this AP doesn't rely on events of prior periods but rely upon non financial data for the audit period under consideration.
Eg: Occupancy rate to estimate rental income.

Structure modeling module test.



→ A modeling tool construct a statistical model from fin. as well as non fin. data of prior accounting period to predict current account balance
Eg: Linear regression, pie chart



CHAPTER - 2

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Question 2

How to ...

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CHAPTER 2: Nature, Objective & scope of Audit

① Distinguish btw external (statutory) audit and internal audit?

Internal Audit	External Audit
1) It reviews the executive and provides suggestion for improvements.	1) It analysis and verify the FB of the Company.
2) It is conducted by employee	It is conducted by CA + COA
3) The Internal Auditor is appointed by managers.	The Stat. auditor is appointed by members.

1) The users of the report are management

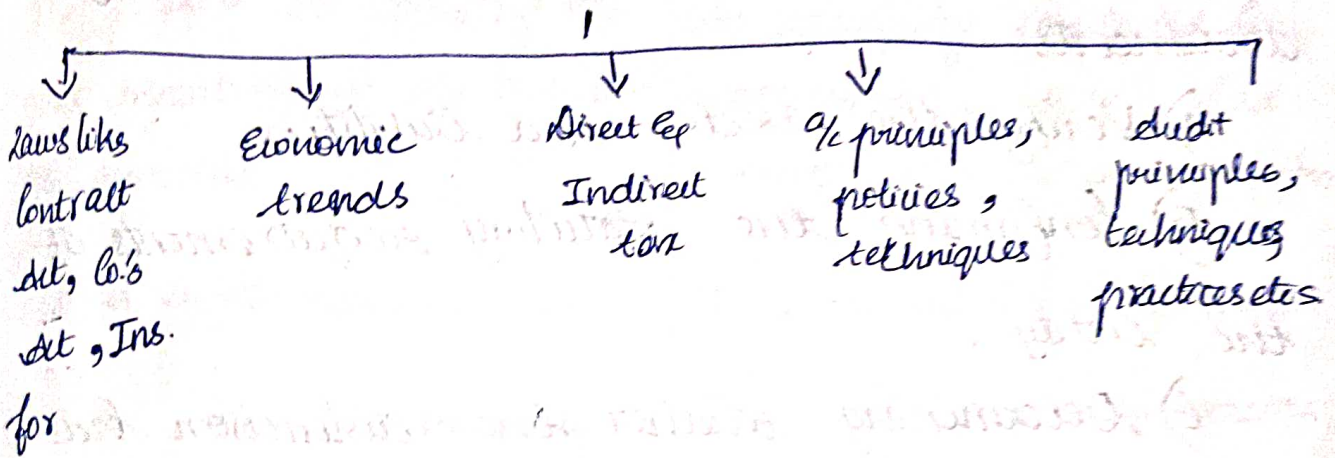
The users of the report are stakeholders.

2) The scope is decided by the management

The scope is decided by the statute.

② Qualities of an Auditor.

* The auditor should have knowledge of



* He should possess personal quality like tact, caution, integrity, objectivity, independence, common sense, reliability and trust

③ Objectives of an audit

As per SA-200 - "Overall Objective of the Independent Auditor", the overall objectives of auditor are

→ To obtain reasonable assurance that FS as a whole are free from material misstatement

→ To report on the FS and communicate required by the FS, in accordance with auditors findings.

④ What are the aspects to be covered in audit?

1) To examine the accounting system and internal control system of the entity.

2) Checking arithmetical accuracy of accounts.

3) To scrutinize vouchers and supporting documents.

4) Verify the assets and liabilities.

5) Confirming the statutory requirements of the entity.

6) Determining whether the distinction has been made btw capital & revenue items.

7) Confirming the validity, reliability and authenticity of the transactions.

⑤

What are the advantages/importance/benefits of audit of F&S?

1) It safeguards financial interest of stakeholders like bankers, creditors, prospective investors etc of the entity.

2) It keeps a moral check on the employees.

from committing devaluation or embezzlement.

- 3) It helps in settling the liability for taxes
- 4) It helps in settling trade disputes.
- 5) It helps in reduction of wastages & losses
- 6) It is useful for obtaining bank loans.

⑥ Distinguish btw auditing and investigation?*

The process of ^{inspect} examining BOP and reporting on it, is called as auditing	An enquiry conducted for establishing a specific fact or truth is called as investigation
It is conducted by CA + COP	It is conducted by any experts as per the requirements.
It is conducted annually	Conclusive in nature
Evidences are persuasive in nature	Investigators is appointed by management, shareholders or any competent auditors authority
Auditors is appointed by members	It is critical & in-depth examination.
It is a general examination of accounts	

Q

What are the audits required under various laws?

Following organisations required audit are:-

- i) Companies as per COA 2013.
- ii) Banking companies as per Banking Regulation Act, 1949.
- iii) Electricity companies as per electricity supply Act, 1948.
- iv) Corporate societies as per Cooperative societies Act, 1912.
- v) Public & charitable trust as per Reg. Religious & Endowment Act.
- vi) Income tax audit under Income tax Act 1961.

Q

Explain Operational Audit (Refer 2.11 Pg: 46 main book)

Q

Explain the relationship b/w audit & behavioural Science - Imp

i) The field of audit involves review of

various assertion in both financial as well as

non financial info. with a view to prove

accuracy of such assertions and to express opinion on the same.

2) The function of audit can be performed only if the person has good knowledge about the fields in respect of which he is conducting such a review.

3) Therefore, the discipline of Behavioural Science is closely linked with subject of audit.

4) The auditor shall be required to interact with lot of people in the organisation, so the knowledge of human behavioural is ^{very} essential for an auditor to discharge his duties.

5) Therefore, he ~~can~~ should have the knack (skill) of getting along with the personnel of the entity under audit.

10) Explain Maternal & Guidance notes (Refer 2-13 Pg: 49 main book).

Stat. are
mandatory

Guid. notes are
recommmandatory.

(ii) What are the basic principles of Governing audit (BPGA)?

As per SA 200 - overall objective of an independent auditor. Following are the BPGA

1) I - Independence, objectivity & integrity.

The auditor should be honest, sincere, and straight forwards towards his works.

2) C - Confidentiality.

The auditor should not disclose the confidential info. of one client to another client.

3) S - Skills & Competence.

The auditor will perform professional work with due skill and care.

4) W - Work perform by others. (WPBO).

Auditor can use WPBO. He can rely on the same but he should check, verify & review the same as he remains responsible for expression of opinion.

5) Aaandoo - Audit Evidence

The auditor should collect audit evidence to form basis for his opinion.

6) Paandoo - Audit Planning.

The auditor should plan his audit work to complete the audit in a timely manner.

7) Dhaandoo - audit Documentation

The auditor should document all important matters related to audit.

8) Canoot - Conclusion & Reporting.

The auditor shall conclude in form of an opinion and report to shareholders

9) See - Accounting System & ICS

This systems are pre set up by management but evaluated by auditor.

② Refer Ques 2, 4, 5, 7 - Pg 55 (main book)

③ Inherent Limitations of audit - Imp. (FATO).

As per SA 200 - "Overall objectives of an independent auditor". The auditor cannot reduce the audit risk to zero and therefore cannot obtain absolute assurance that FS are free from material misstatement due to fraud or error.

This is because there are inherent limitations of audit. The inherent limitations of audit arise from

i) Nature of Financial Reporting:-

The preparation of FS involves judgement made by the management as per the applicable financial reporting framework (FRF). This judgement is a subjective decision which may vary auditor to auditor and entity to entity.

ii) Nature of Audit Procedure:-

There is a possibility that the management & others may not provide complete info. to the auditor and because of this the auditor will be unable to obtain audit evidence.

An audit is not an official investigation into an alleged or a wrong doing.

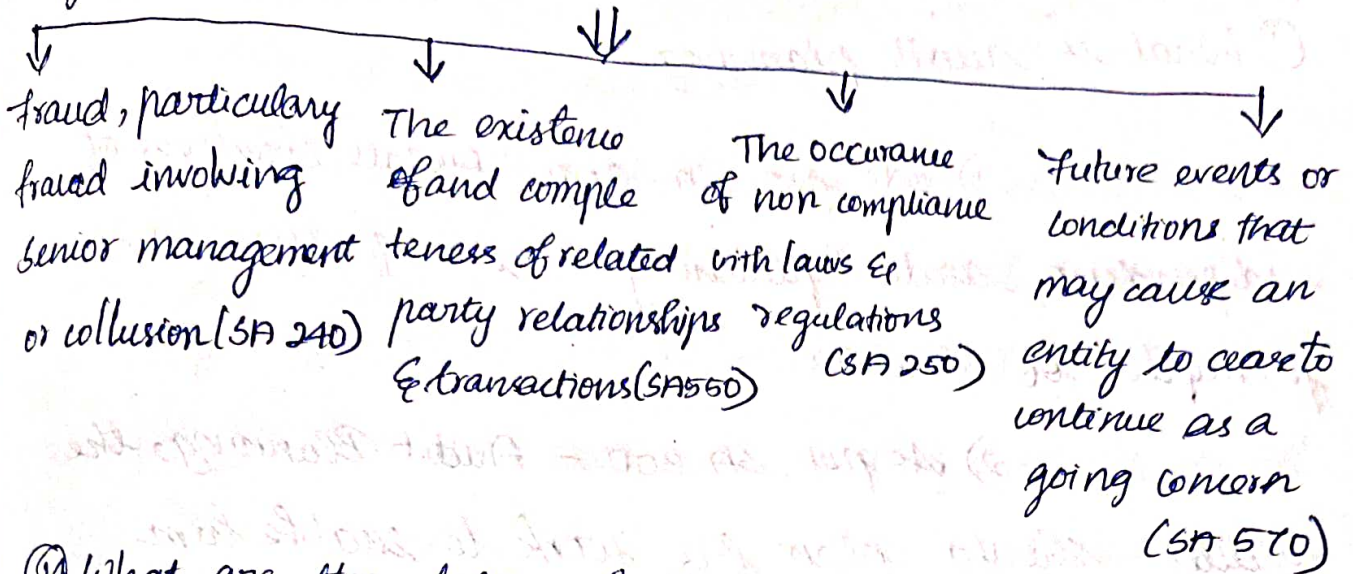
iii) Timeliness of Financial Reporting and the Balance b/w Benefit & Cost:-

Collecting evidence for each and every item of FS becomes expensive in terms of time & money. Therefore, the auditor collects

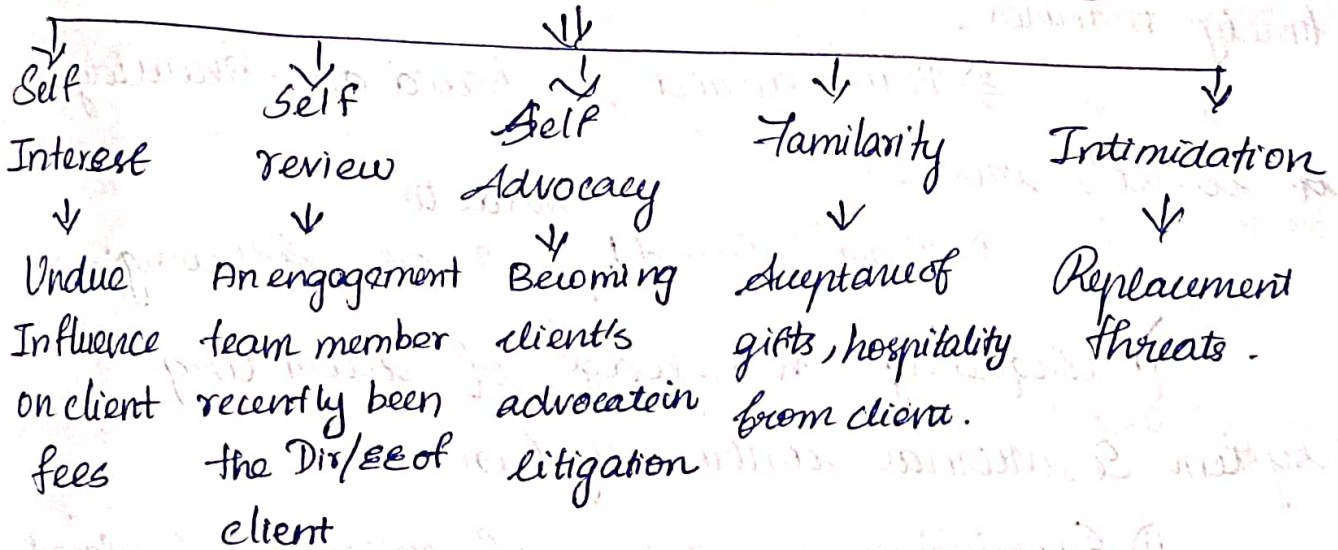
convulsive evidences rather than conclusive evidence.

iv) Other Matters :-

In case of certain matters the limitation on auditors ability to detect MMS are particularly significant. This matters includes



Ⓐ What are the types of threats to a professional accountant - IRAFI (Qn-12 Pg-60 mainbook)



Ⓑ What are the safeguards to threats. (Refer Qn 13 Pg 61).

Refer SA 210 - 6 points Pg 63.

Refer SA 220 - 5 points Pg 65

Refer Qn 4 - Correct/Invoiced Pg 1.43 (ISM)

Qn 10 - Pg (1.45) ISM

CHAPTER - 10

AUDIT STRATEGY, AUDIT PLANNING, AUDIT PROGRAMME

Q What is audit planning?

1) As per SA-200 "Overall objectives of independent audit" planning is one of the basic principle of auditor.

2) As per SA 300 - Audit Planning, the auditor should plan his work to enable him to conduct an effective and efficient audit in timely manner.

3) Plan should be based on knowledge of client's business

4) Plan should be ^{made to} cover the following:-

i) Acquiring knowledge of accounting system & internal control system.

ii) Establishing the degree of reliance to be placed on ICS.

iii) Determining the nature, time & extent of audit procedures.

iv) Coordinating the work to be performed.

Q How as an auditor you will establish the overall audit strategy? → FUN-RE

i) Consider the factors that in the auditor's professional judgement are significant in directing the engagement team efforts :- F

ii) The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. - U

iii) Ascertain the nature, timing and extent of resources necessary to perform the engagement. - N

iv) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. - R

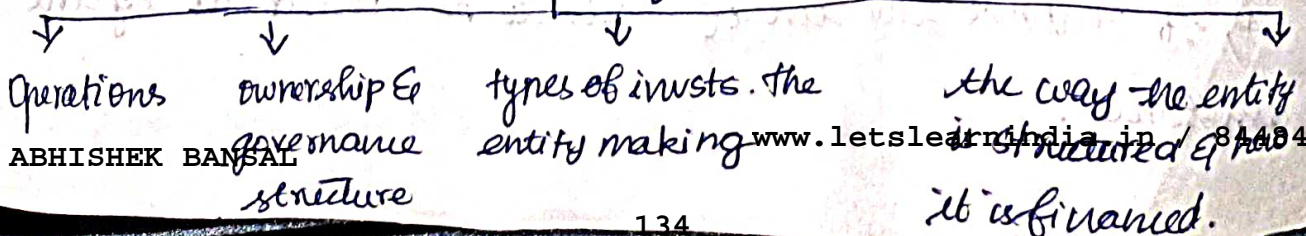
v) Identify the characteristics of the engagement that define its scope. - E.

Q How as an auditor he will obtain the knowledge of the clients business?

As per SA 315 - Identifying & assessing the risk of material misstatement through understanding the entity and its environment, the auditor shall obtain an understanding of the following :-

i) Relevant industry, regulatory and other factors

ii) The nature of the entity



iii) To enable the auditor to understand the classes of transactions, a/c balances & disclosures in FS

iv) The entity's selection and application of accounting policies.

④ What are the factors to be considered by auditor while developing an overall audit plan - TN MASAKA

i) The nature terms of his engagement and any statutory responsibilities.

ii) The nature and timing of reports or other communication

iii) The setting of materiality levels of audit purposes

iv) The accounting policies adopted by the client and changes in those policies

v) Establishing and coordinating slitting requirements

vi) The degree of reliance auditor expects to be able to place on the accounting system and internal control.

vii) The applicable legal or statutory requirements.

viii) The nature of audit evidence to be obtained.

⑤ AUDIT PROGRAMME

1) As per SA 200 - "Overall objectives of an independent auditor" documentation is one of the principle of the auditor.

2) As per SA 230 - Audit Documentation - Audit programme is a list of examination and verification steps to be applied in audit.

3) It is a detailed plan of applying the audit procedure for accomplishing audit objectives.

4) It contains the list of tasks to be carried out by the assistance.

5) For the purpose of audit programmes, the following points should be kept in view.

(i) Stay within the scope and limitation of the assignment

ii) Determine the evidence available

iii) Apply only the those steps & procedures which are useful in accomplishing the specific purpose.

iv) Consider all possibilities of error.

v) Coordinate the procedures to be applied.

vi)* Advantages of audit programme are:-

i) It specifies the procedure to be checked during audit

ii) It is essential to provide a total perspective of the work to be performed.

iii) The assistance by putting the signature accept their responsibilities.

iv) The principal can control the work of assistance

v) Selection of assistance under a proper program can help the audit proceeds systematically.

vii)* Disadvantages of Audit Programme:-

i) The work may become more mechanical

ii) Inefficient assistance may take shelter behind the programme.

iii) The programme often tends to become

Refer SA 230 - 3 points - Pg: 191 (main book)

6) Distinguish between concurrent & final audit?

Concurrent	Final
1) It is suitable for large organisation	It is suitable for small organisation
2) IES may or may not be efficient but it will be there	IES may or may not be there
3) The staff check conducts audit throughout the year	It is conducted toward the year end
4) Advantage: <ul style="list-style-type: none"> a) early D&P of F&E b) Early prep. of FS is possible c) Keep some moral check on client's staff d) Client's accounts are always kept up to date e) Opportunities of committing fraud are reduced. 	Dis-Advantage: <ul style="list-style-type: none"> may not be possible.

5)

5) Disadvantage

a) Outstanding or unreserved queries

Queries are solved immediately

b) ~~Queries~~ Dislocation of client's work.

No dislocation

c) It is expensive

It is less costly

d) Alteration in figure is possible

may not be possible

e) Increased reliance on auditors

no increase reliance on auditors

6) What are the precautions to avoid disadv. of continuous / concurrent audit

1) During the course of each visit the work to be completed up to the definite stage so as to avoid loose ends

2) At the end of each visit important balances should be noted down and the same should be compared at the time of next visit

3) The visit should be at Irregular intervals so that the client does not note exact date when the audit would be

resuming and thus may not be able to prepare themselves in advance for the same.

4) The nominal % should be checked only at the time of final closing.

5) The client's staff should be instructed not to alter or auditor's figures.

8) Surprise check

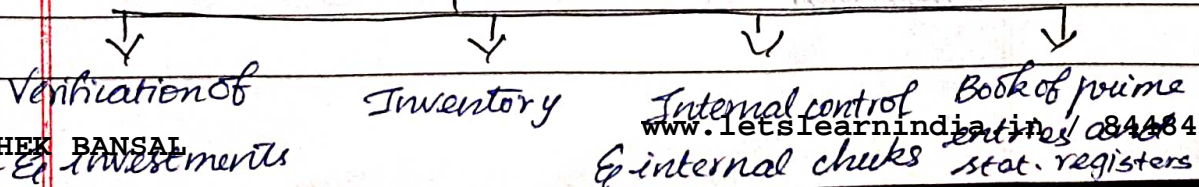
1) Surprise checks are used to determine whether or not there are errors to bring the matter to the attention of management so that corrective action is taken immediately.

2) Surprise visits by the auditor can exercise a good moral check on the client's staff.

3) The need for and frequency of surprise check is a matter of professional judgement of the auditor and will depend on circumstances of each audit.

4) It constitutes an important part of normal audit procedures.

5) The areas over which surprise check can be employed are



1) What are test check techniques
(risk assessment chapter)

i) Test check refers when an audit is conducted on the basis of a part checking.

ii) Test check derives its origin to the statistical theory of sampling.

iii) The auditor according to his best judgement, having regard to the nature, size and materiality of transactions, picks up for the entries for examinations.

iv) The following precautions may be taken applying test check techniques.

a) Transactions of concern should be classified under appropriate heads.

b) Study and evaluation of internal control system should be exercised for its efficiency, soundness and capability for producing reliable accounting and financial data.

c) System of authorisation, documentation and evidence of transaction should be examined.

d) A test check plan should be prepared to match with the audit objectives.

e) There should not be any bias in the selection of the transactions.

f) Identification of the area where the check may not be done.

g) Following items are not suitable for test check:-

C - Cash transactions

O - Opn/clo. entries in B/S items

B - Bank recon statement

R - Non Recurring items

A - Any other items

Refer ①, ②, ③, ④, ⑤ - SA 380 Pg:197.

10) Explain audit note book and its contents

① As per SA-230 - Audit documentation, it is a bound book which contains large variety of matters observed during the course of audit are recorded.

② It is a part of audit working papers.

③ It forms part of current audit files. It is used for recording various queries & raised during the work.

④ Contents of audit note book are MUST

→ Mistakes or irregularities observed during the course of audit.

→ Unsatisfactory book-keeping arrangements, costing methods.

→ Important information about the company which is not apparent from the accounts.

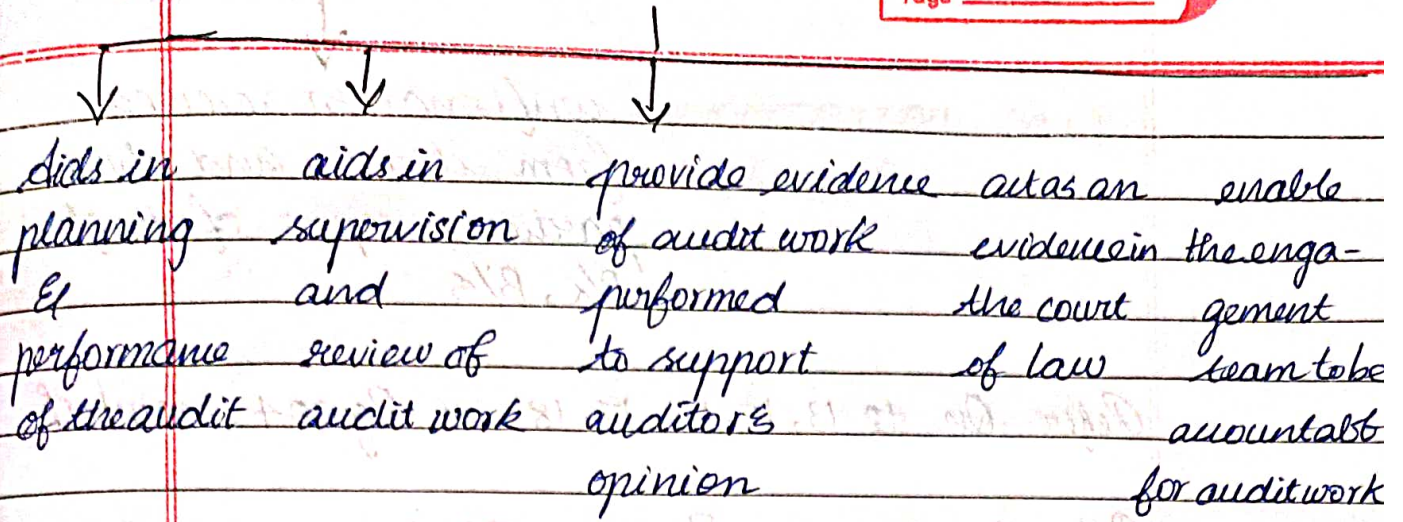
→ ~~Set~~ Special points requiring consideration at the time of verification of annual accounts.

→ Important matters for future reference.

ii) Explain audit working paper (advantages) retention / permanent & current file.

① As per SA 230 - Audit documentation, working papers are the record of audit procedure performed, relevant audit evidence obtained and conclusions the auditor has reached.

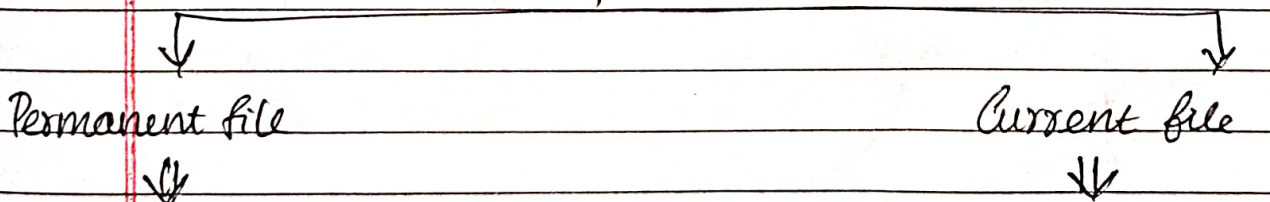
② It helps in



③ As per SOA 1 and SA 230 working papers should be retained for seven yrs from the date of signing of

④ Working papers are the property of auditors. He can show some or all working paper at his own discretion. No management, stat auditor can ask for working papers, exemption:- law & authority asked for.

⑤ Permanent & current file



Permanent file
It includes MOA, AOA, extracts of imp. legal docue, agreements, last yr audit report, last yrs FS, analysis of significance ratios & trends

Current file
Analysis of P/L & B/S item, extracts of imp. matters in minutes of Board & General meeting, letter of appointment



confirmation received
from clients and third
parties, copies of drafts,
P/K, B/S

Refer Qn +2 13, 15, 16, 17, 18, 19 Pg 204 mainbook

Refer Qn 5, 6, 7 - Pg 2-31 TBM

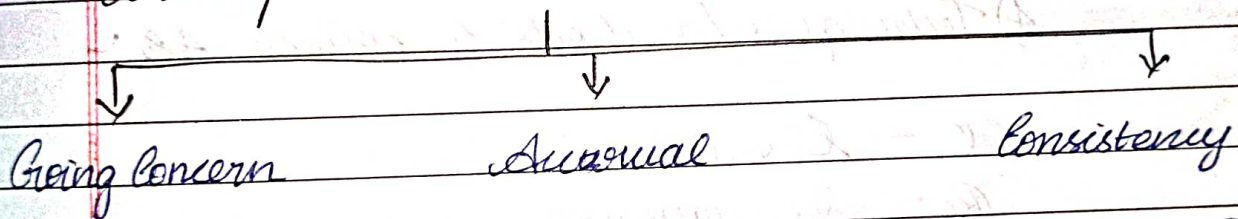
CHAPTER-11

AUDIT DOCUMENTATION &
AUDIT EVIDENCE

1) Explain true and fair view
Refer 11.1 Pg 211 main book

2) What are the areas in which the different accounting policies are encouraged
Refer 11.2-A Pg 211 main book

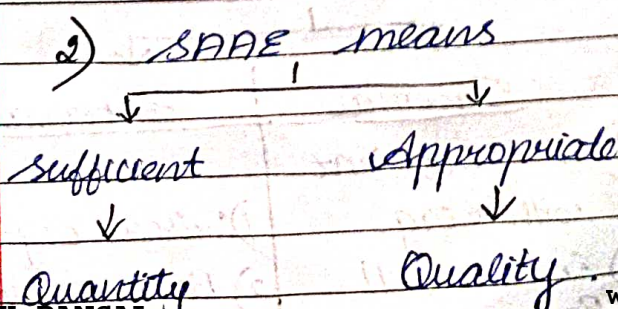
3) What are the fundamental accounting assumptions?



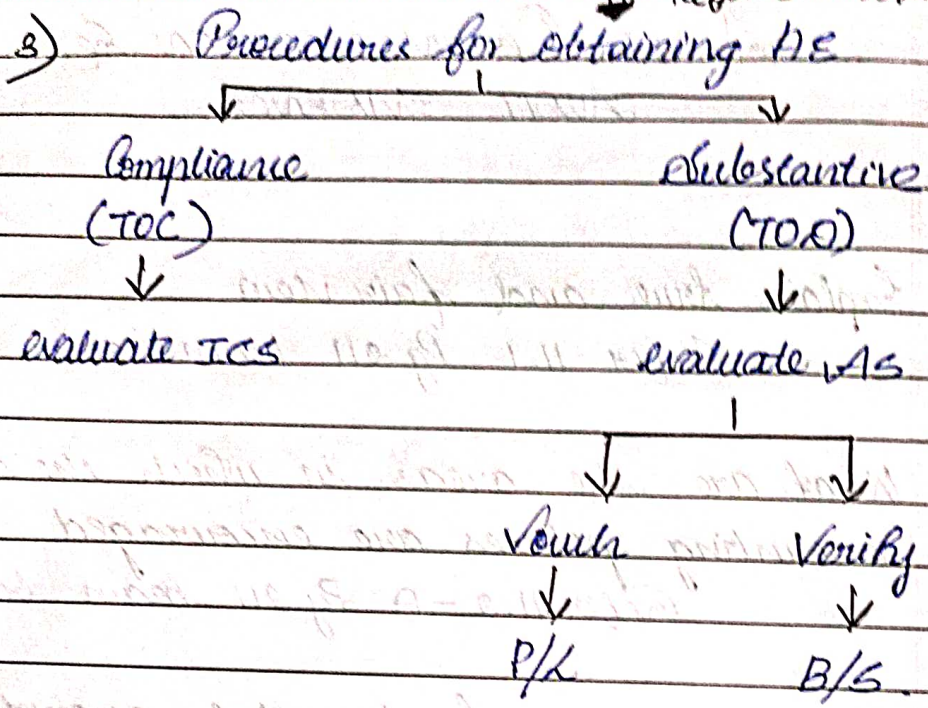
⇒ Refer 11.2-B Pg 212 main book

4) Explain audit evidence

1) As per AS 500 - Audit evidence, it means any info. obtained by the auditor while conducting audit to form basis of his opinion.



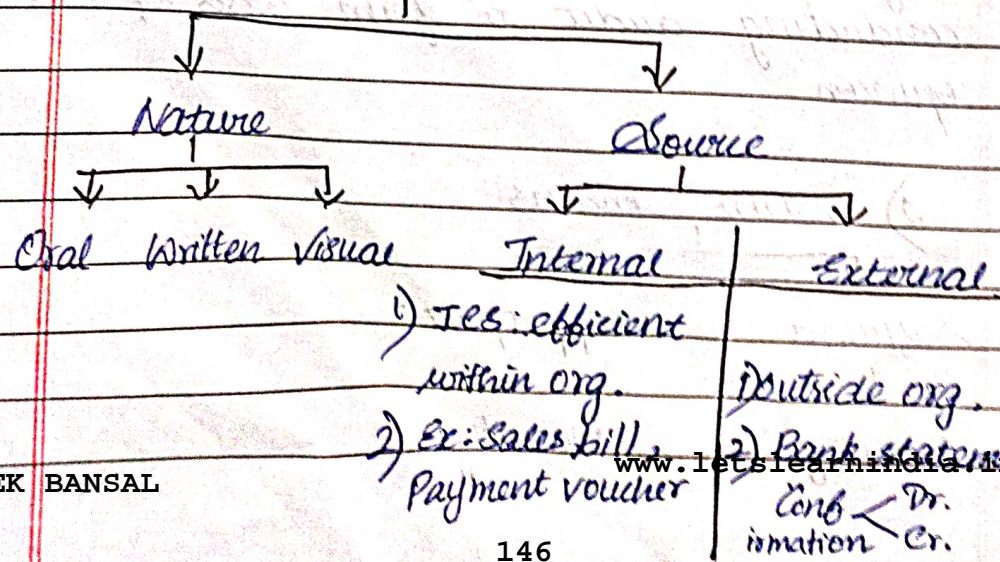
Refer Q6 217



4) Techniques/methods to collect AE :-

- O - Observation
- Re - Reperformance
- I - Inspection
- C - Computation/Confirmation
- A - Analytical Review
- I - Inquiry

5) Types of AE



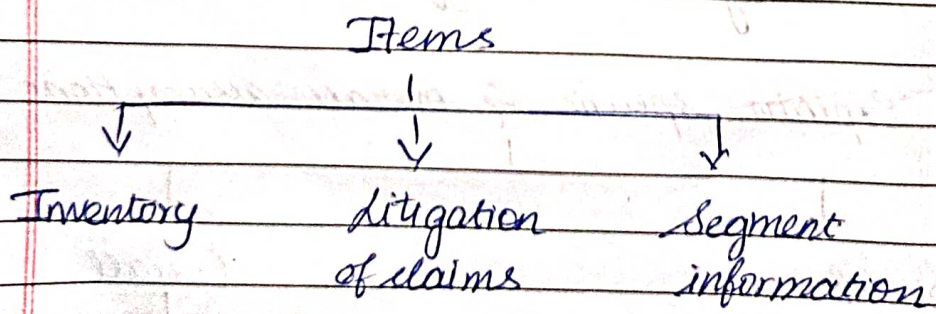
Q) What are Test of Control? and what do they include?

1) Refer On 4-3 → pt-3 → notes - Audit Evidence.

2) Test of Controls may include

- 1) Inspection of documents supporting transactions to gain evidence that TEs are operated properly
- 2) Inquires and observation of internal controls system which leave no audit trails
- 3) Repurchase Internal controls operating on specific computerized applications
- 4) Testing of internal controls

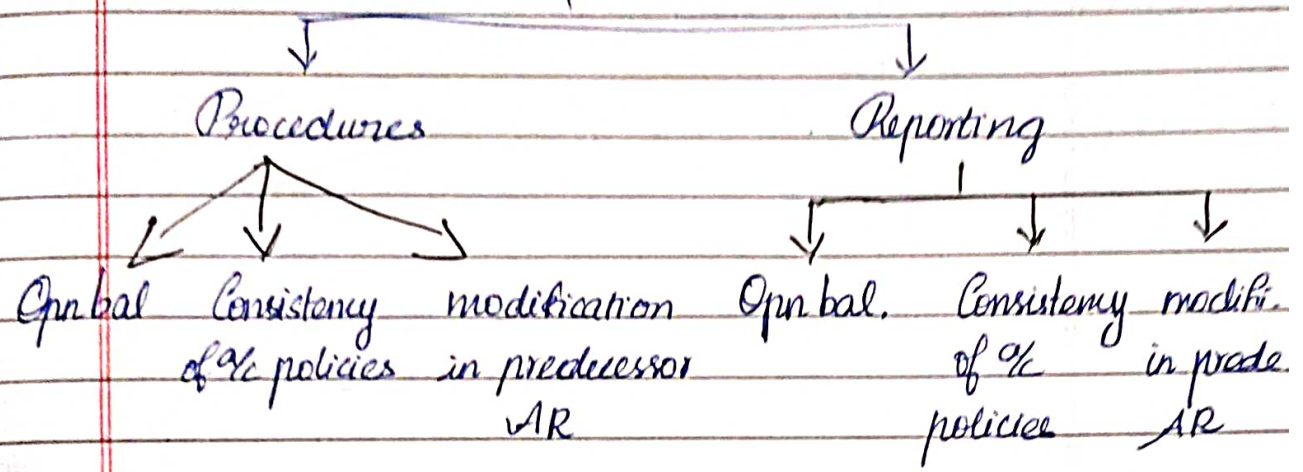
Refer SA 501 - Audit evidence - Specific consideration for selected items



Refer 3 points - Pg 220

Refer SA 505 - external confirmation
- Refer 7 points - Pg 222

Refer SA 510 - Initial audit engagements - Opinions



Refer 2 points + objectives - Pg 224

Refer SA 510 - Going concern - 7 points - Pg 229

Refer SA 580 - Written Representation - 5 points
- Pg 232

Refer Qn

Refer SA-560 - Subsequent Event - Pg 228
↳ 4 points

Refer SA-550 - Related parties - 6 points - Pg 226

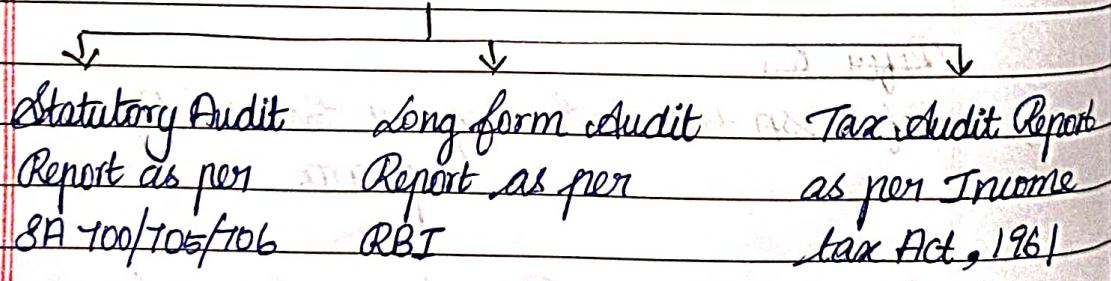
Refer Ques 5, 6, 14, 15, 18 - Pg 3.77 (IGM)

AUDIT OF BANKS

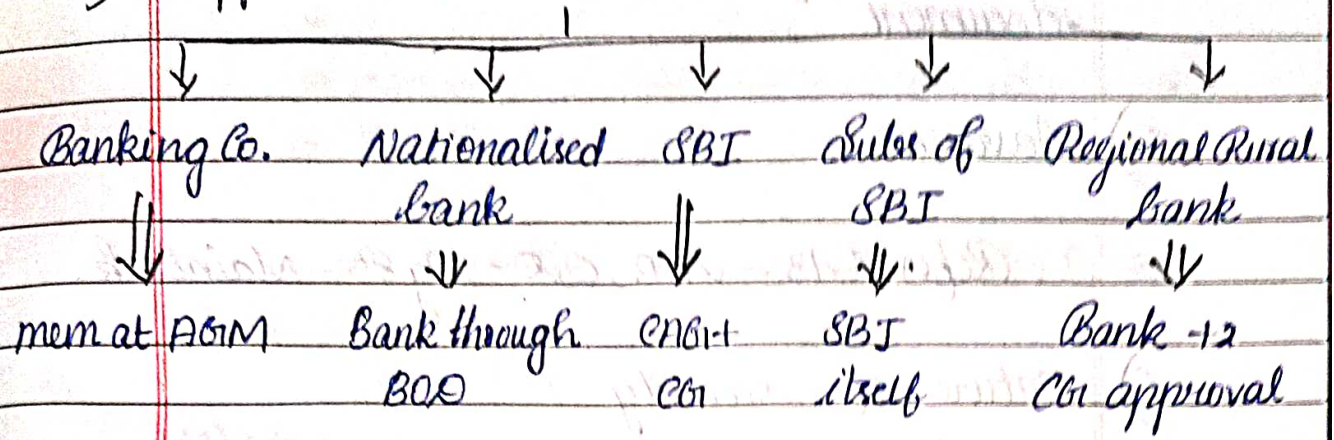
1) What are the regulatory framework applicable to a bank?

- 1) * Banking Regulations Act, 1949
- 2) * State Bank of India Act, 1955
- 3) * State Bank of India (Subsidiary Banks) Act, 1959
- 4) * Companies Act, 2013
- 5) * Regional Rural Banks Act, 1976
- 6) * Information Technology Act, 2008
- 7) * Prevention of money laundering Act, 2002
- 8) * Securitization and Reconstruction of financial assets and enforcement of security interest Act, 2002
- 9) * Payment and settlement systems Act, 2007

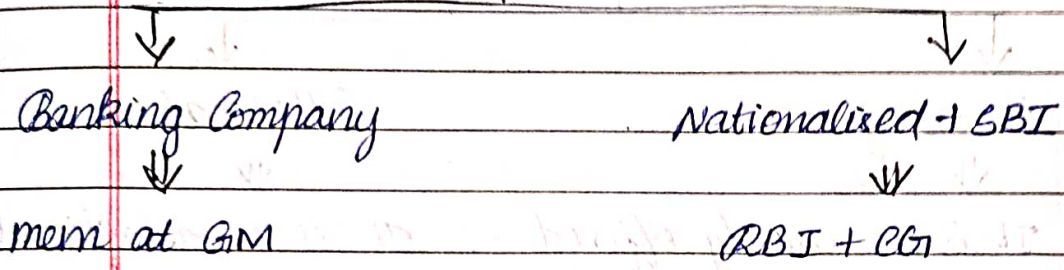
2) What are the types of Audit Report to be issued by auditor?



3) Appointment of Auditor



Remuneration of Auditor



4) Long form Audit Report

1) The auditors of all public sector banks, private sector banks, foreign banks have to furnish long form Audit Report (LFAR)

2) The matters for LFAR have been specified by RBI

3) It is to be submitted before 30th June every year

4) It doesn't require any executive ~~summary~~ summary to be given, however the member (CA Auditor) may provide the same to ~~bring~~

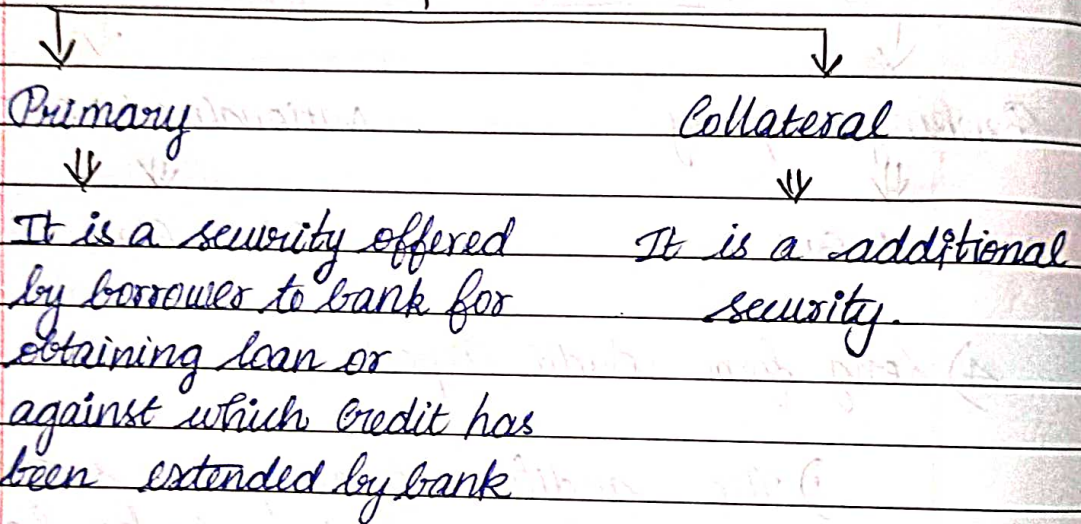
out the key observations from the whole document

B) Advances

Refer 4.13 - A, B, C, D - Pg 85 - Mainbook.

C) Nature of security

Nature of security



It is a principal security

- Security — tangible
- intangible
- movable
- immovable

Examples of security are,

- * personal security of Guarantor
- * Goods / stocks / Debtors / Trade receivables

- * Gold ornaments and Bullion
- * Immovable
- * plantations (for Agricultural advances)
- * Third party guarantees.

1) Mode of creation of security - Refer Pg: 86-
Point 7.

(a) Mortgage - immovable property



Registered mortgage



by registered instrument
signed by mortgagor
to mortgagee



Equitable mortgage



by delivery of titled deeds
by mortgagor to
mortgagee

(b) pledge \Rightarrow movable property possession =
with creditor

(c) Hypothecation \Rightarrow movable property possession
with debtors

(d) Assignment \Rightarrow transfer of future [debt
right
property
by assignor to assignee

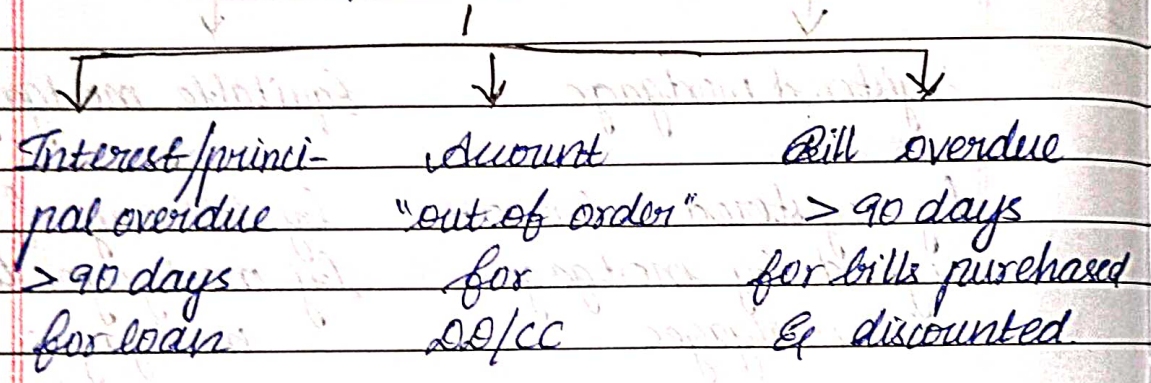
(e) set off \Rightarrow Right of creditor to adjust debit
balance in debtors % against credit balance
in another % of the debtor

all branches of a bank are treated as single entity.

(f) lien \rightarrow creation of charge with consent of owner which gives lender a right to seize and dispose the asset under lien.

(g) Non performing Assets (NPA)

loans & advances = NPA



(h) out of order \rightarrow If outstanding balance is $>$ sanctioned limit / drawing power
 \rightarrow If outstanding balance is less than sanctioned limit but no credit for 90 days

i) Overdue :- Any amt due to bank if not paid on due date fixed by bank is called as overdue.

j) Classification of NPA:-

→ Availability of security or Net worth should not be considered for treating an advance as NPA.

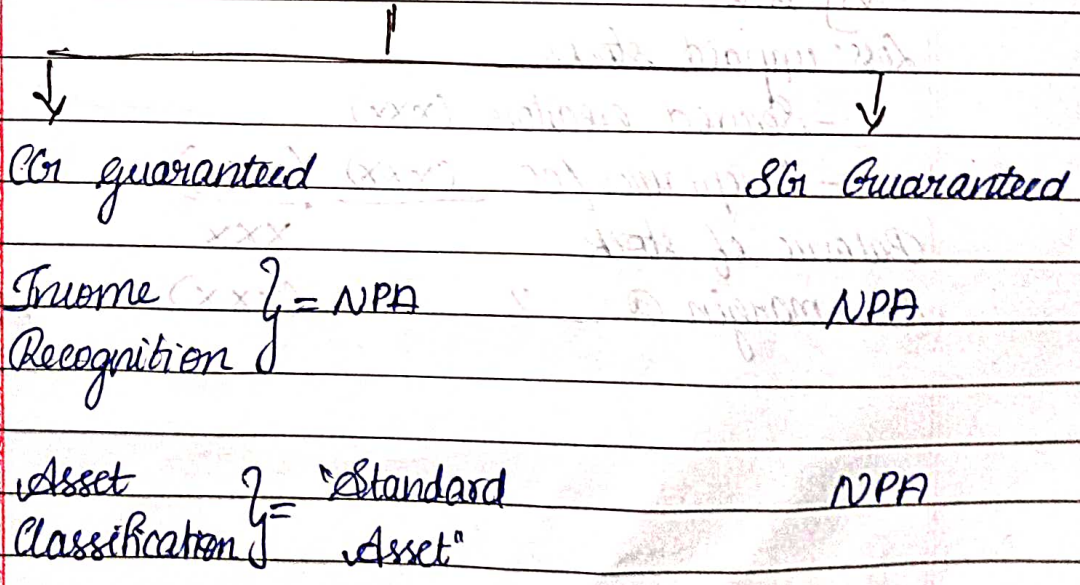
→ Asset classification borrower wise & not facility wise

k) A/c regularised near B/S date.

If an A/c is classified as NPA & later on any amount is received before the B/S date it will not be treated as NPA.

If indicates inherent weakness on basis of data available the account should be deemed as NPA.

l) Advances guaranteed by govt.



But if guarantee
is evoked/repudiated
then it will be treated
as NPA

m) consortium Advances - Refer H Pg 88
mainbook

n) Drawings power allocation in case of cash
credit :-

The lead bank would be responsible
for computing drawing power & allocate the
same to member bank.

limit \rightarrow increased } on request of borrower.
 \rightarrow decreased }

steps for calculating DP

A] stock	xxx
Less: unpaid stocks	
- Secured creditors (xxx)	
- Acceptances / ce (xxx)	(xxx)
Balance of stock	xxx
Less: margin @ %	(xxx)
	xxx (A)

(A) \rightarrow stock

B] Debtors

Total debtors	xxx	
Less: ineligible debtors	(xxx)	
Eligible debtors	xxx	
Less: margin @ %	(xxx)	
		Debtors xxx (B) ↘

Total DP = A+B

Refer Ex:- pg no. : 12.34 (ISM).

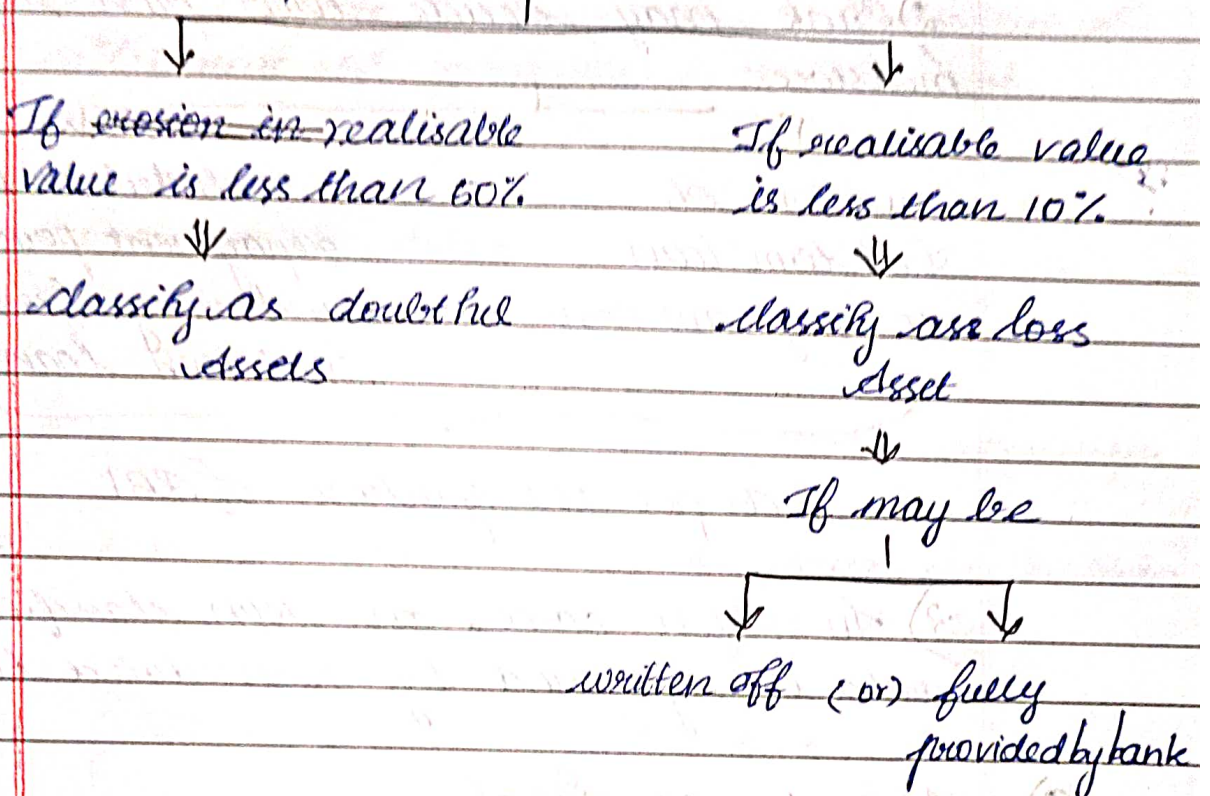
29/08/2022

Date

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O. Accounts where there is erosion in the value of security / frauds committed by borrowers

It is not appropriate to follow stages of asset classification it should be straight away classified as doubtful or loss asset as appropriate



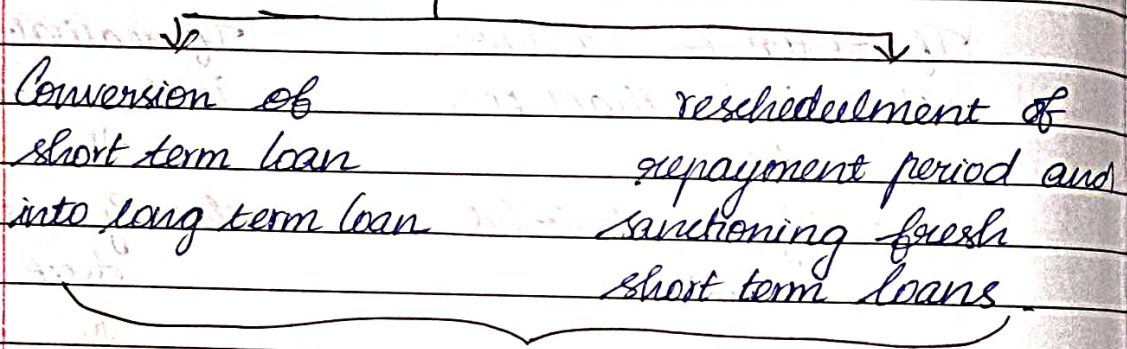
P. Advances against term deposits, NSCs, KVPs, IVPs, etc.

Advances against above need not be considered as NPA, adequate margin is available in the accounts.

1) Agricultural Advances affected by Natural calamities - Imp.

1) RBI has given measures through circulars for classification & income recognition issues due to impairment caused by natural calamities

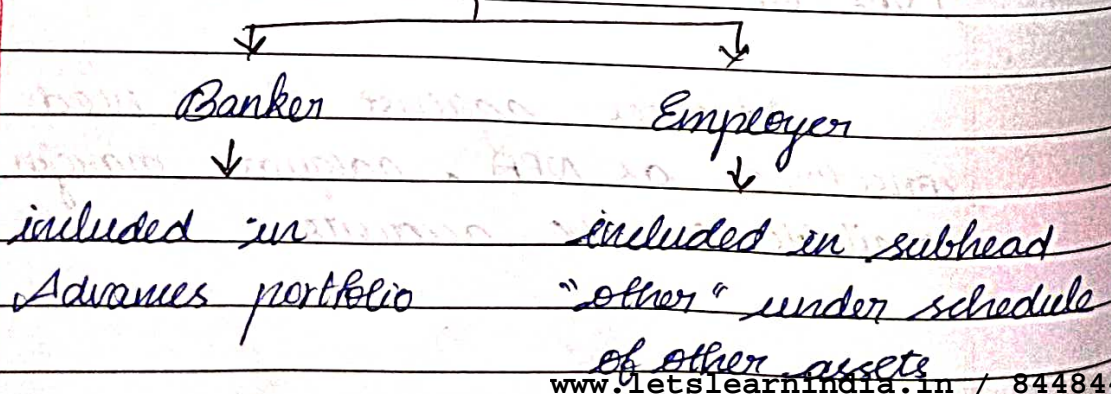
2) Bank may decide their own relief measures



3) In such cases, the NPA classification would be governed by rescheduled terms.

2) Advances to Staff

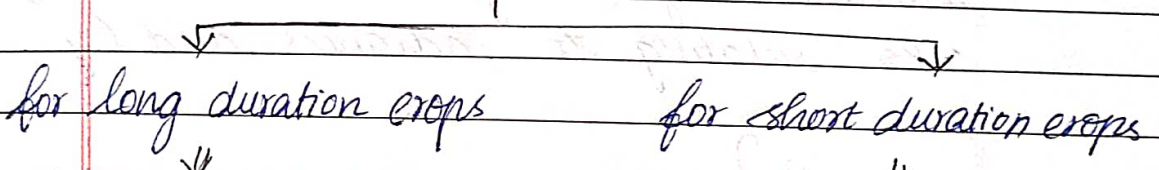
1) Interest bearing staff advances as a



2) In case of housing loan and or any similar advances granted to staff members, where interest is payable after recovery of principle such interest need not be considered as overdue from first quarter onwards

3) Such loan will be treated as NPA only if there is default in repayment of installment of principle or payment of interest on respective due date.

5) Agricultural Advance



1) crop season for more than 1 year

1) crop season for less than or equal to 1 yr.

2) NP only if instalment P
I
remains overdue for 1 crop season.

2) NPA only
for 2 crop season

8) How as an auditor you would verify advances?

1) The auditor is primarily concerned with obtaining evidence about the following:-

- a) Validity of reversed amts (V)
- b) Examining loan documents (R)
- c) Verifying that there are no unrecorded amts of advance (E)
- d) Reviewing the appropriate positions towards advance have been made as per RBI norms (I)
- e) Checking whether advances are properly disclosed, classified and described as per relevant statutory and regulatory requirements (F)

2) The auditor can obtain SAE about advance by study and evaluation of TEs relating to advances and by

- | | |
|---|-----------------|
| a | } same as above |
| b | |
| c | |
| d | |
| e | |

a) How as an auditor you would verify audit of income

i) The auditor should check there is no unrecorded income and all the income is recorded in proper accounts and is allocated to proper period

2) You should see ^{that} any income

Exceeds 1% of total Inc. of bank & calculated on gross basis

Exceeds 1% of net profit before taxes if calculated on net basis

should be considered on accrual basis of AS-9

3) Banks should recognise income on accrual basis as it is earned.

4) In respect of NPA, bank should not recognise Income on accrual basis but recognised on cash basis.

5) Advances against term deposits, NCS, IVPs etc should not be treated as NPA provided adequate margin is available in the accounts.

6) You should check the bills ^{for} collection, letters of credit, bank guarantee on test basis.

10) Reversal of income - Imp

1) If any advance become NPA at the year end, the entire interest accrued &

credited to income % in the past periods should be reversed or provided for if the same is not realised.

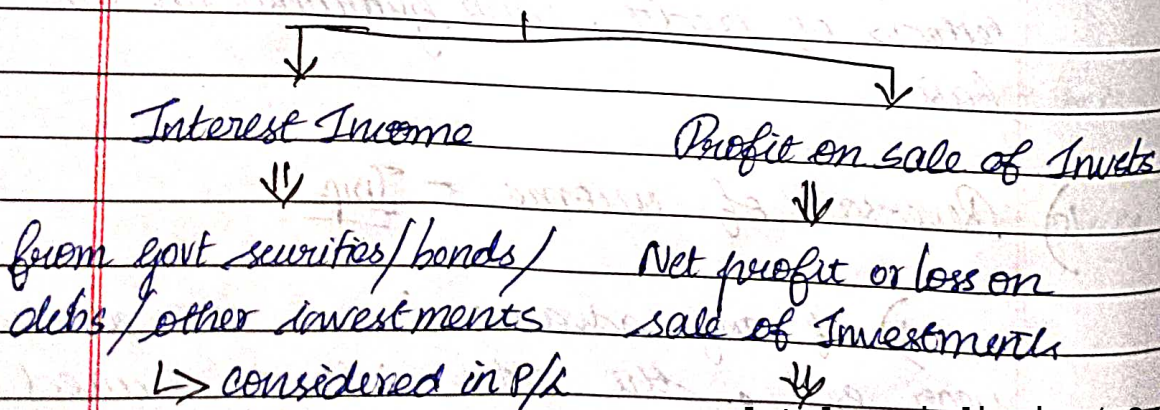
This will also apply to Govt guaranteed advances

2) In respect of NPA, fees, commission, any similar income which is accrued should cease to be accrued and be reversed or provided for, if uncollected.

2) In case of bank which have wrongly recognised income in the past should reverse or make a provision for same.

4) If there are large debits in the interest income % but there are no credits the auditor should inquire with the management and ask the manager to reverse the same.

ii) How as an auditor he would verify any income from investments.



↓
Except - Dividend Income

Subsidiaries Joint
Venture
in India / Abroad.

12) How as an auditor you would verify expenses

① The auditor should check is there any change in interest rate on savings deposits and term deposits during the year -

② He should understand the computation of average balance and recompute the same on sample basis

③ He should analyse month on month the expenses & document the reasons for variances as per the benchmark stated.

④ He should compare the avg rate of int. paid with the previous year figures and analyse any material differences

⑤ He should see the entries for interest expended are automatically generated through a batch process in the CBS system

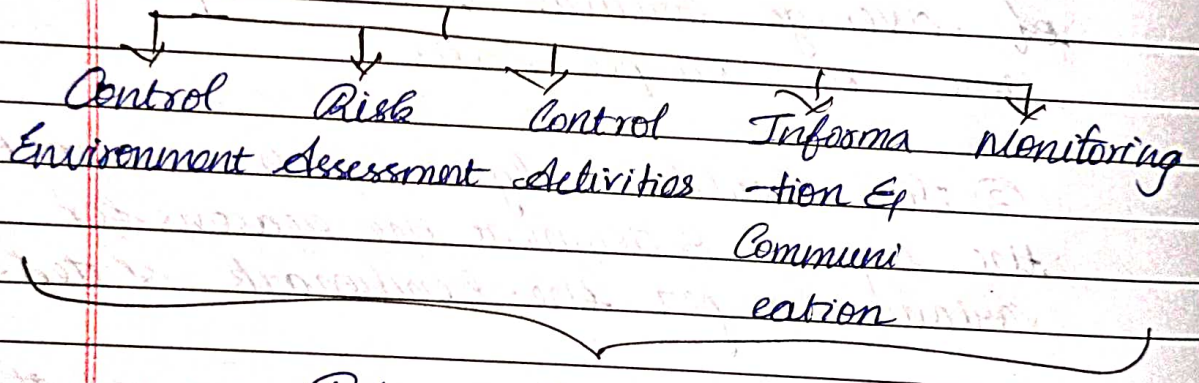
⑥ He should analyse the various types of deposits %s at the year end

B) What initial consideration to be considered by stat auditor in case of audit of bank - Imp

A 4.12 Pg no: 80 - mainbook.

1A) How as an auditor he would understand risk management process in case of bank? - Imp.

An effect risk management system in a bank generally requires the consideration of following for establishing IS/ framework.



Refer E Pg 82 mainbook

15) What other reports the auditor will rely on while doing bank audit?

- 1) Last year Audit Report
- 2) RBI's latest inspection report
- 3) Bank officials inspection report
- 4) Internal/ Concurrent Audit Report
- 5) Report on verification of securities

b) Any other internal report relating to particular accounts

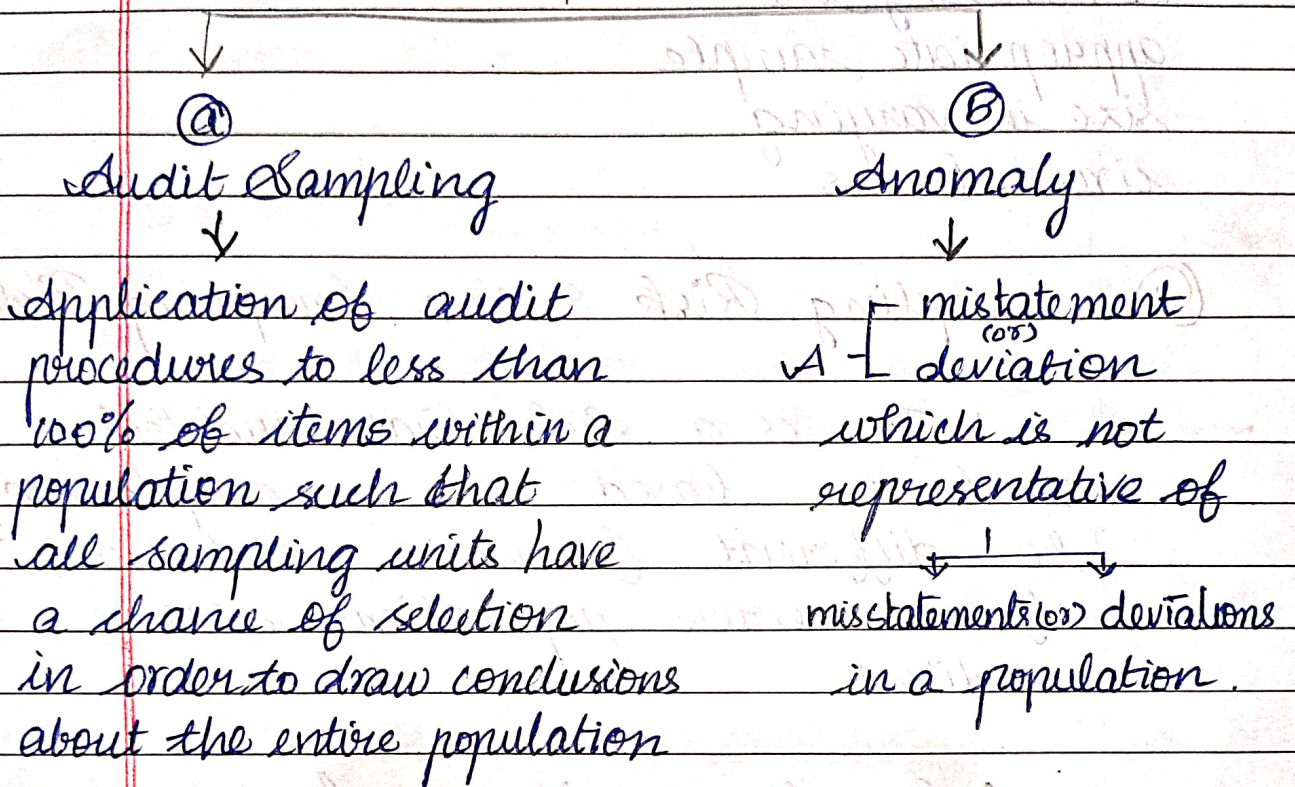
1) Annual financial Inspection reports

Refer 1, 2, 4 - Pg 12.49 - ISM

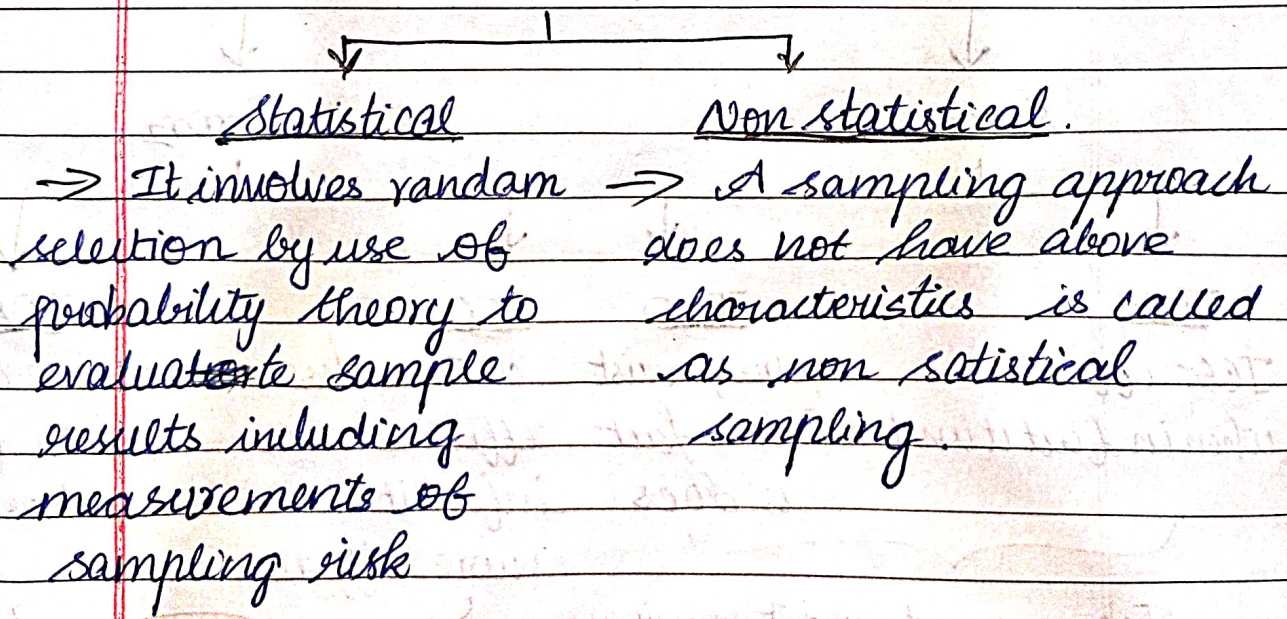
AUDIT SAMPLING - GA530

CHAPTER 7

① Definitions



② Types of Sampling

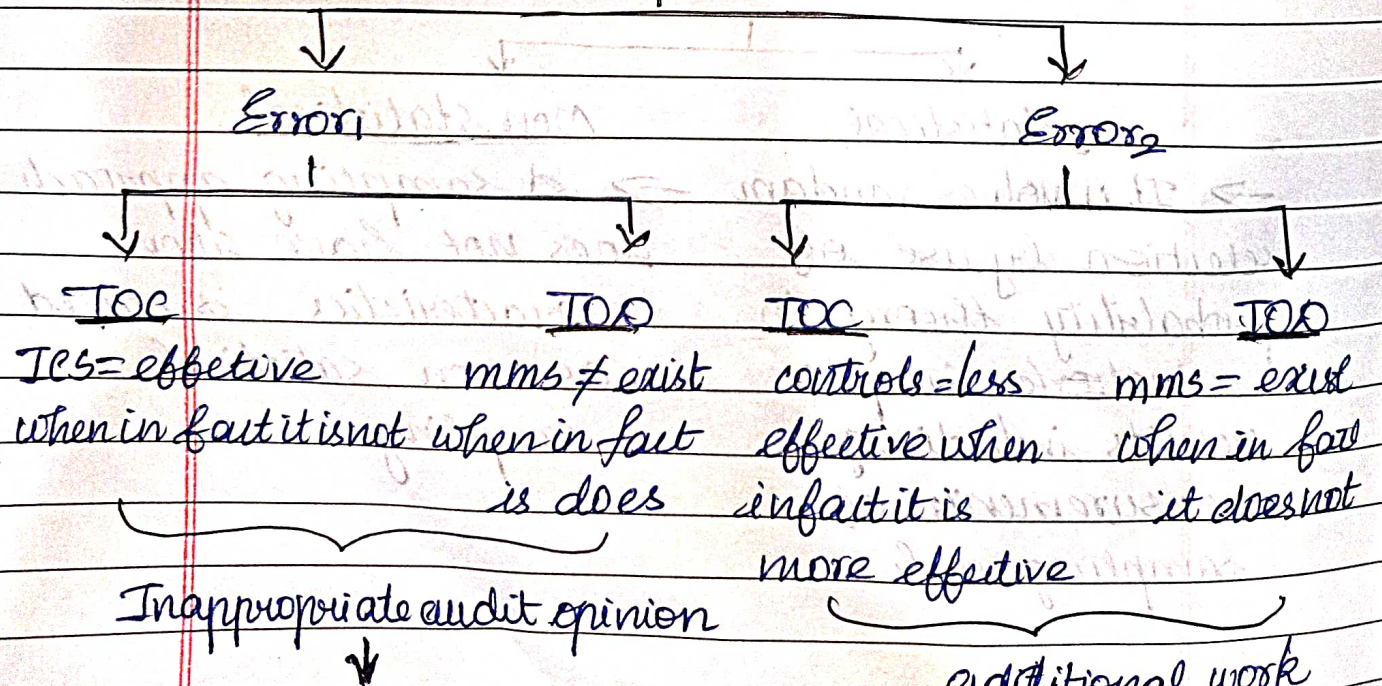


↓
→ It is more scientific approach because it involves mathematical laws of probability in determining the appropriate sample size in varying circumstances.

③ Sampling Risk & Non Sampling Risk

1. It is a risk that auditor's conclusion based on a sample may be different from the conclusions if the entire populations were audited.

2. Sampling risk can lead to two types of erroneous conclusions



3. Non-Sampling Risk means which the auditor reaches an erroneous conclusions for any reason not related to sampling risk.

④ Methods of sampling. Refer 7.4 Pg:140

→ Random Sampling

A sample is selected by using random number tables or random number generators which ensures all items within a population stand an equal chance of selection.

→ Systematic

The number of sampling units in the population is divided by the sample size to give a sampling interval.

→ Haphazard

Samples are selected without following a structured techniques.

→ Block

It involves selection of a block(s) of contiguous items from within the population.

→ Monetary Unit

It is a type of value-weighted selection in which sample size, selection & evaluation results in a conclusion in monetary amounts.

⑤ Read Stratification, Tolerable misstatement, tolerable rate of deviation - Pg 141

⑥ Explain sample audit design, size and selection of items for Testing

Sample Design	Sample size	Selection of Items
When designing an audit sample, the auditor should consider the purpose of audit procedure and the characteristics of the population from which the sample will be drawn	The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.	The auditor shall select items for a sample in such a way that each sampling unit in the population has a chance of selection.

⑦ Read performing audit procedures, Nature and Cause of Deviations & Misstatements, - Pg 142.

⑧ Factors affecting sample size for

↓

①

Test of Controls

↓

i) Increase in tolerable rate of deviations - (Decreases)

ii) An increase in auditor's assessment of ROMM controls (Increases)

iii) Increase in no. of sampling units (negligible effect)

iv) Increase in expected rate of deviations of population (Increases)

↓

②

Test of Details

Increase in tolerable misstatement (Decreases)

An increase in auditor's assessment of ROMM (Increases)

Increase in no. of sampling units (negligible effect)

Increase in use of substantive procedures at same assertion (Decreases)

Refer Q.1 & Q.5 - Correct/Incorrect notes

Refer Q.10, 11 - Correct/Incorrect - ISM

Refer Q.6 - ISM.

AUTOMATED ENVIRONMENT.

* Automated Environment means business environment where processes, operation, accounting and even decisions are carried out by using computer system known as Information System or Information Technology system.

* The key features of automated environment are -

F → Enables faster business operations

A → Accuracy in data processing and computation.

L → Ability to process large volumes of transactions

S → Better security and controls

E → Less prone to human errors.

L → Provides latest information

I → Integration btw business operations

C → Connectivity & Networking capability

Q What is the relevance of 'IT' in audit?

IT is used in audit in following ways -
CABRU

C → Computation and calculations are automatically carried out (for example bank interest computation and inventory valuation).

A → Accounting entries are posted automatically (for example, sub-ledger to GL postings are automatic).

B → Business policies and procedures, including internal controls, are applied automatically (for example, delegation of authority for journal approvals, customer credit limit checks are performed automatically).

R → Reports used in business are produced from systems. Management and other stakeholders rely on these reports and information produced (for example, debtors ageing report).

U → User access and security are controlled by assigning system roles to users (for eg: segregation of duties can be enforced effectively).

③ How as an auditor you will understand and document automated environment? ↳ 315
↳ 230

As per SA 315, the auditor needs to obtain understanding of the entity, business including automated environment. Following points shall be considered by the auditor - VIP A L O K.

V - Version (functions and risks could vary in different versions of same application)

I → Information systems being used (one or more application systems and what they are).

P → Their purpose (financial & non-financial).

A → Architecture (desktop based, client server, web application, cloud based).

L → Locations of IT systems - local vs global.

O → Outsourced activities (IT maintenance and support).

K → Key persons (CIO, CISO, Administrators).

→ Interfaces within systems (in case multiple systems exist).

The understanding of the company is automated environment shall be documented as per SA-230.

Example of template that can be used the document or understanding is illustrated below:-

Information system being used	Version	Purpose	Location local vs Global	Architecture	Inhouse vs Packaged	Key Persons
SAP	V2.5	Accounting	Global	Web-based	Package	CIO, CISO

A) What are the risks arising out of IT system?

Following are the risks arising out of IT system

- LUCI-7E

L → Loss of data

U → Unauthorised access to data/direct data changes

C → Unauthorised changes to systems or programs.

I → Inaccurate processing of data.

processing inaccurate data or both.

4 ⇒ Failure to make necessary changes to systems or programs.

5 ⇒ Excessive access/Privileged ~~use~~ access (super users).

⑤ What is the impact of IT risk on change in audit procedures?

* We may not be able to rely on the data obtained from system where such risk exists. This means all data, information or reports obtained from the system has to be thoroughly tested and corroborated for completeness and accuracy.

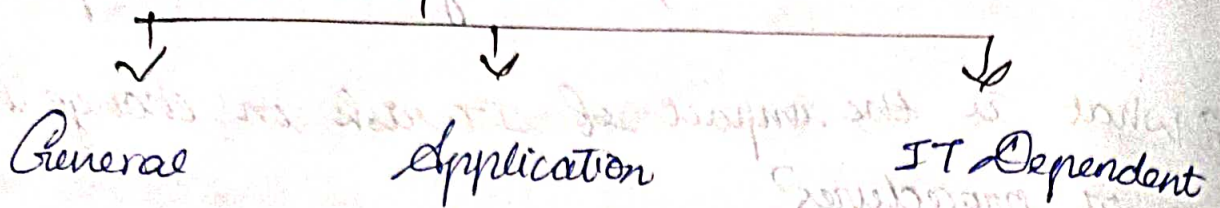
* Secondly, we may not be able to rely on automated controls, calculations and accounting procedures and thus additional audit work may be required in this case.

* Thirdly, because of regulatory requirement of auditor to report on internal financial control of company the audit report may also be modified in some instances.

* In all the above cases, the auditor will be required to obtain more audit evidence and perform

additional audit work.

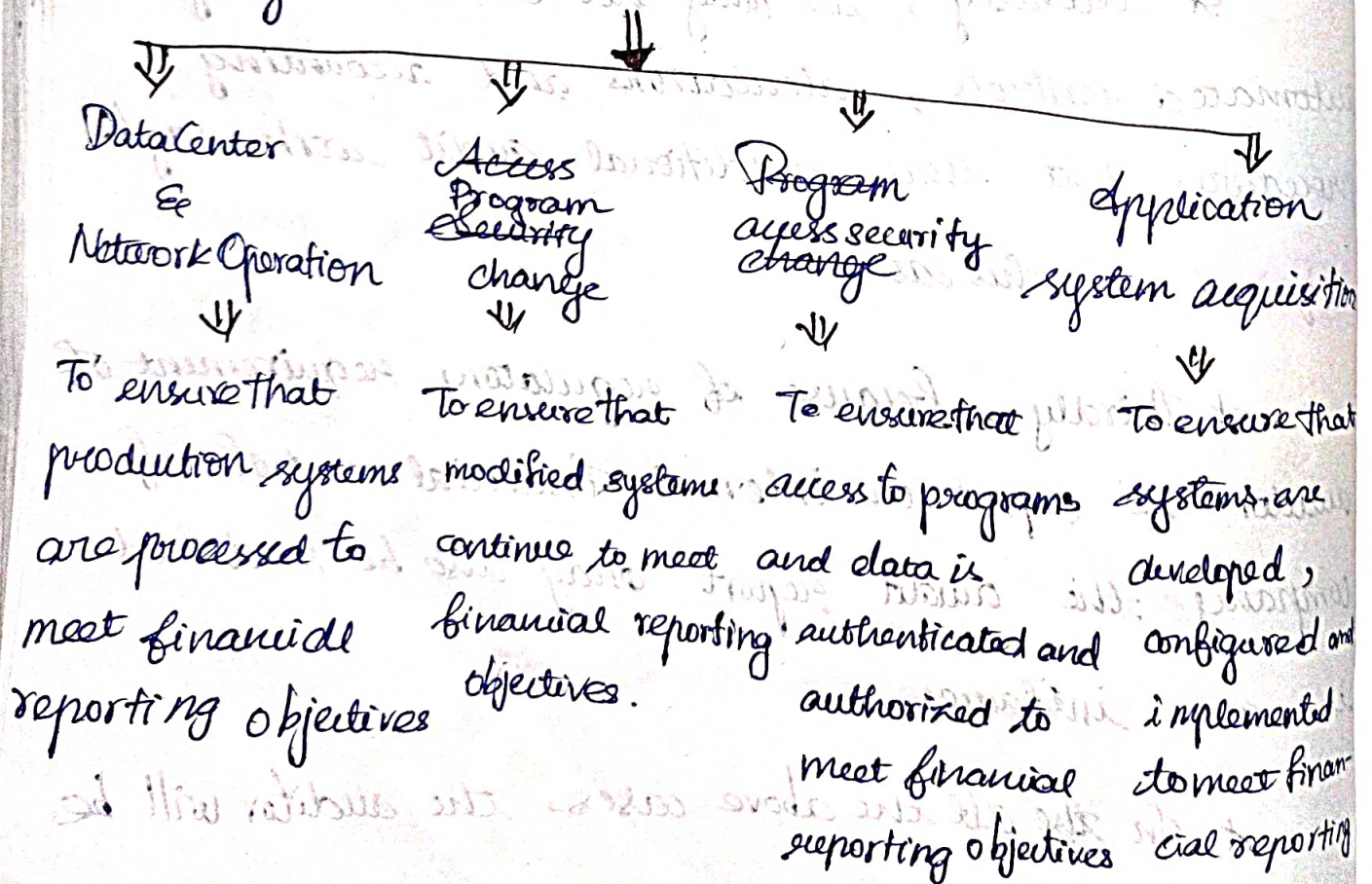
⑥ Types of Control in Automated Environment



a) General Controls

In general controls, these controls are policies and procedures that relate to many application and support the ~~effective~~ ^{effective} functioning of app. controls. It includes controls over

followings:-



D) Application Controls

These are both automated & manual controls. They operate at business process level. Examples are edit checks, validation of input data, sequence number checks, user limit checks, mandatory data fields.

E) IT Dependent Controls

* These are manual control that makes use for some form of data or information or report produced from IT system and application.

* Even though the control is performed manually, the design and effectiveness of control depends on reliability of source data.

* Eg: Performing reconciliation based upon computer generated data.

④ Mention the procedure for performing tests under IT environments?

* There are 4 types of audit test that should be used that is inquiry, observation, inspection & reperformance.

* Inquiry is the most efficient audit test but it gives least audit evidence.

* Reperformance is the most effective audit test but is not efficient.

* Inquiry ~~alone~~ alone cannot be used. It should always be used in combination with other audit testing method. Applying inquiry in combination with inspection is more effective and efficient audit evidence.

* Which audit test to be used when & in what combination is a matter of professional judgement of auditor.

* Some of the common methods are

1. Obtaining the understanding of how automated

transaction is processed.

2. Observing how user process transactions under different scenarios

3. Inspect the configuration defined in an application.

4. Inspect the system logs to determine any changes since last audit testing.

⑧ Explain Data Analytics.

1. The combination of process, tool & techniques that are used to tap ~~most~~^{vast} amount of electronic data to obtain meaningful info. it's called data analytics.

2. The tools & techniques that are used in applying the use principles of data analytics are called as computer assisted Auditing Techniques (CAAT).

3. Data analytics can be used in testing electronic records by using spreadsheets and specialize audit tools like IDEA, ACL to perform

- a) Check completeness of data and population
- b) Selection of audit sample
- c) Recomputation of balances
- d) Reperformance of mathematical calculations
- e) Analysis of Journal entries
- f) Evaluating impact of control deficiency

A suggested approach to benefit from CAAT is given below:-



- Understand business environment including IT
 - We have to do EA course
- Define the Objective and criteria
 - We have to clear in 1st attempt
- Identify source and format of data
 - Notes required.
- Extract data
 - extracted note from ICAI site
- Verify completeness and accuracy of extracted data
 - check applicability of

⇒ apply criteria on data obtained. Give mock paper

⇒ Validate and confirm the result. Give actual paper.

⇒ Report and document results and conclusions. We became "CA"

How as an auditor you would report with regards to IT environment

Refer D.T pg no:-28 in main book

Explain Internal Financial Control.

IFCs are policies and procedure establish by Companies for ensuring → OOLA - R

D * Prevention and Detection of Frauds

O * Effectiveness and efficiency of operations

L * Compliance with applicable Law & Regulations

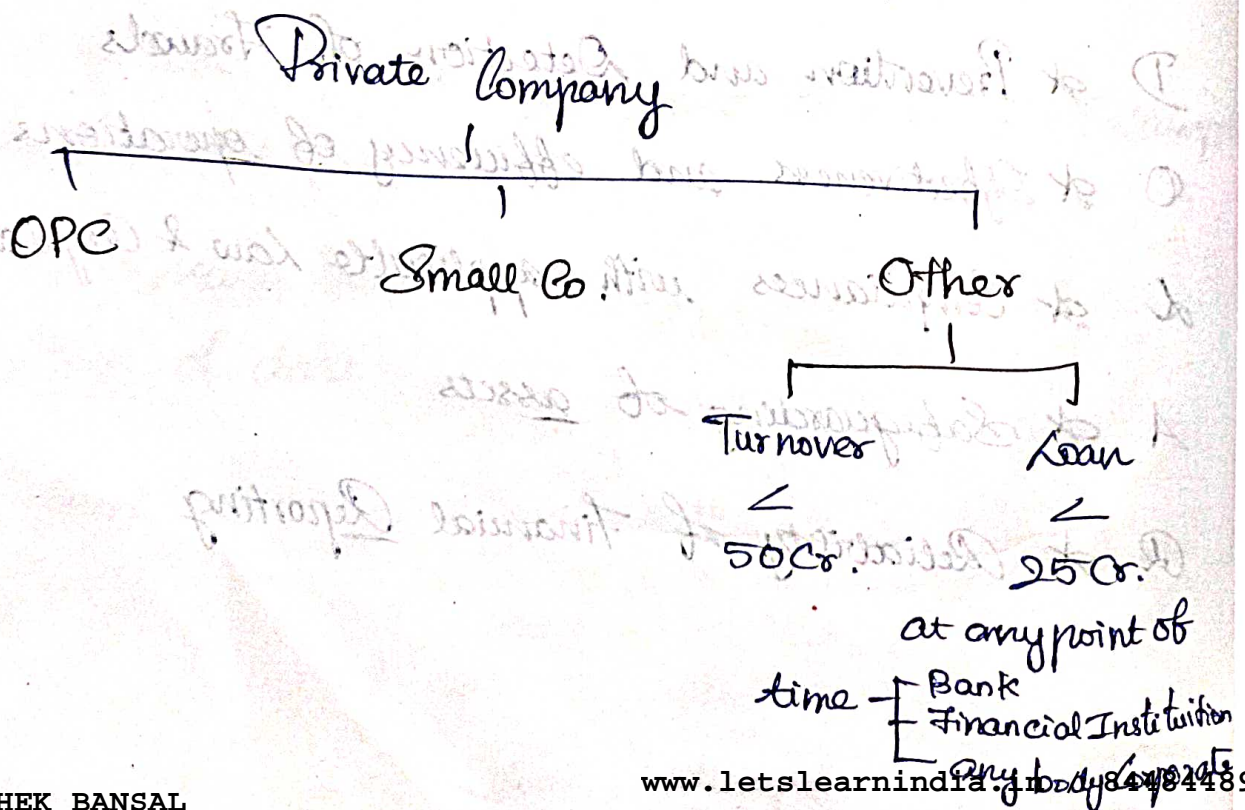
A * Safeguarding of assets

R * Reliability of Financial Reporting

IFCs are applicable to all companies. However, in case of listed companies the directors will state that IFC's in place and we are operating effectively.

The independent directors, audit committee and stat. auditors are also responsible for efficiency of IFC.

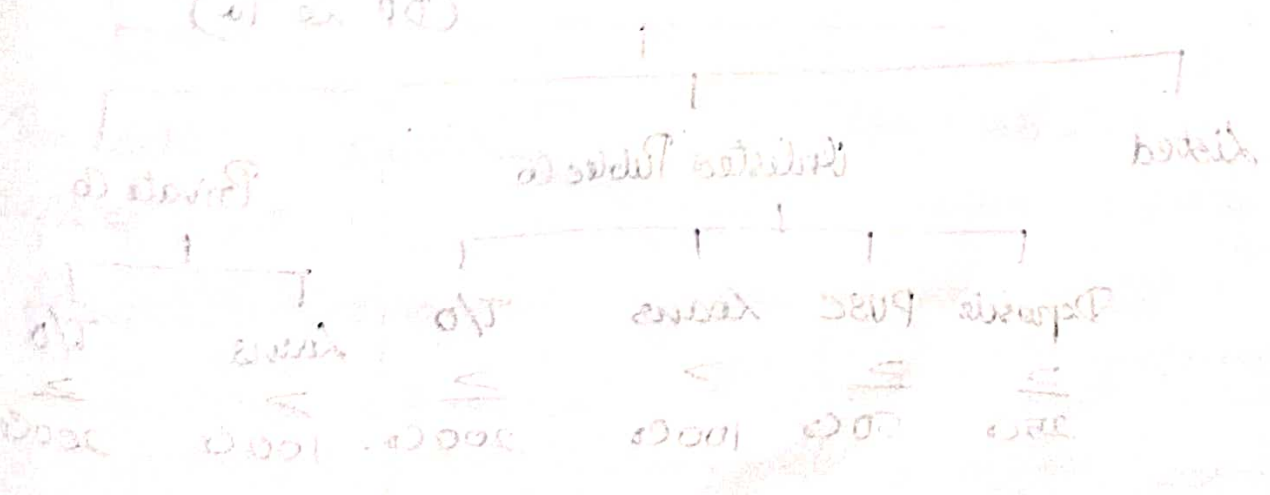
As per 143(3)(i) the auditor will state that IFC is in place and it is operating effectively. However in case this will not be applicable to a private company.



Refer Qn 1, 5, 7 - correct / incorrect pg: 6.26 (ICAI module)

Refer Qn 6, 7, 8, 9 - theory ques Pg: 6.27 (ISM)

WAM }
 FOR }
 CMA }



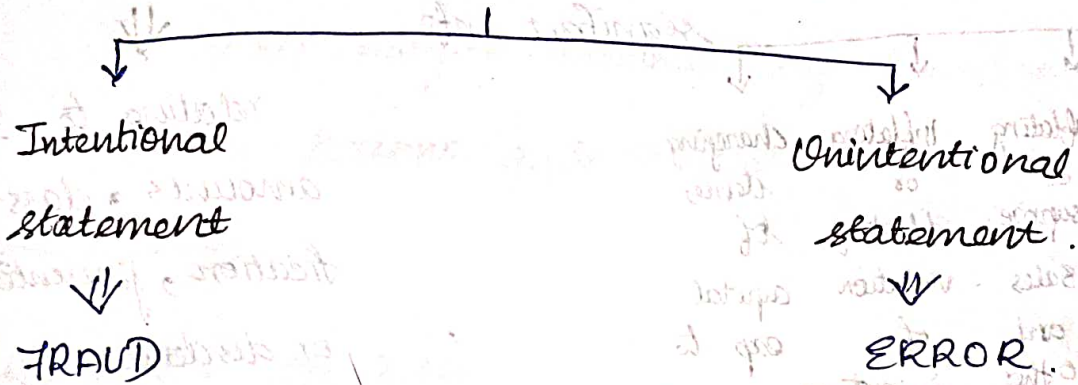
FRAUD (3m - 4m)

1) Explain fraud and what are the characteristics of fraud.

* As per SA 240 - Auditor's responsibility related to firm fraud in audit of FS.

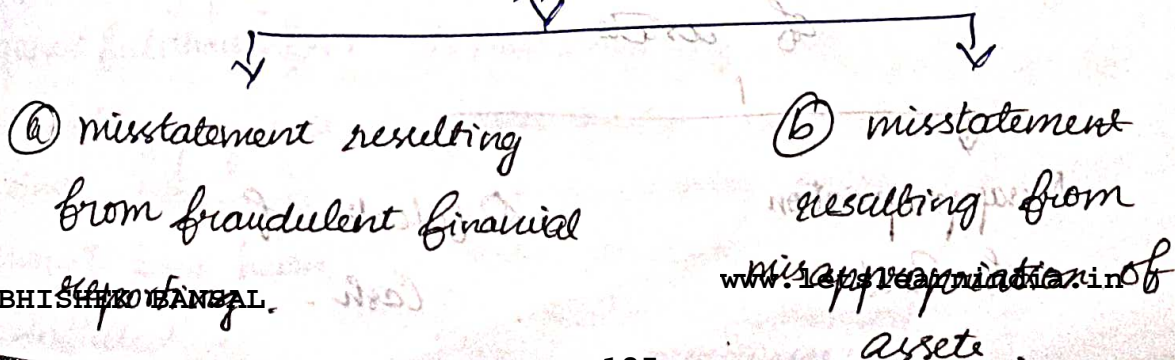
* Fraud means an intentional act by one or more individuals among management, TCWG, employees or third parties inclu. the use of deception to obtain an unjust or illegal advantage.

* Misstatement in FS occurs due



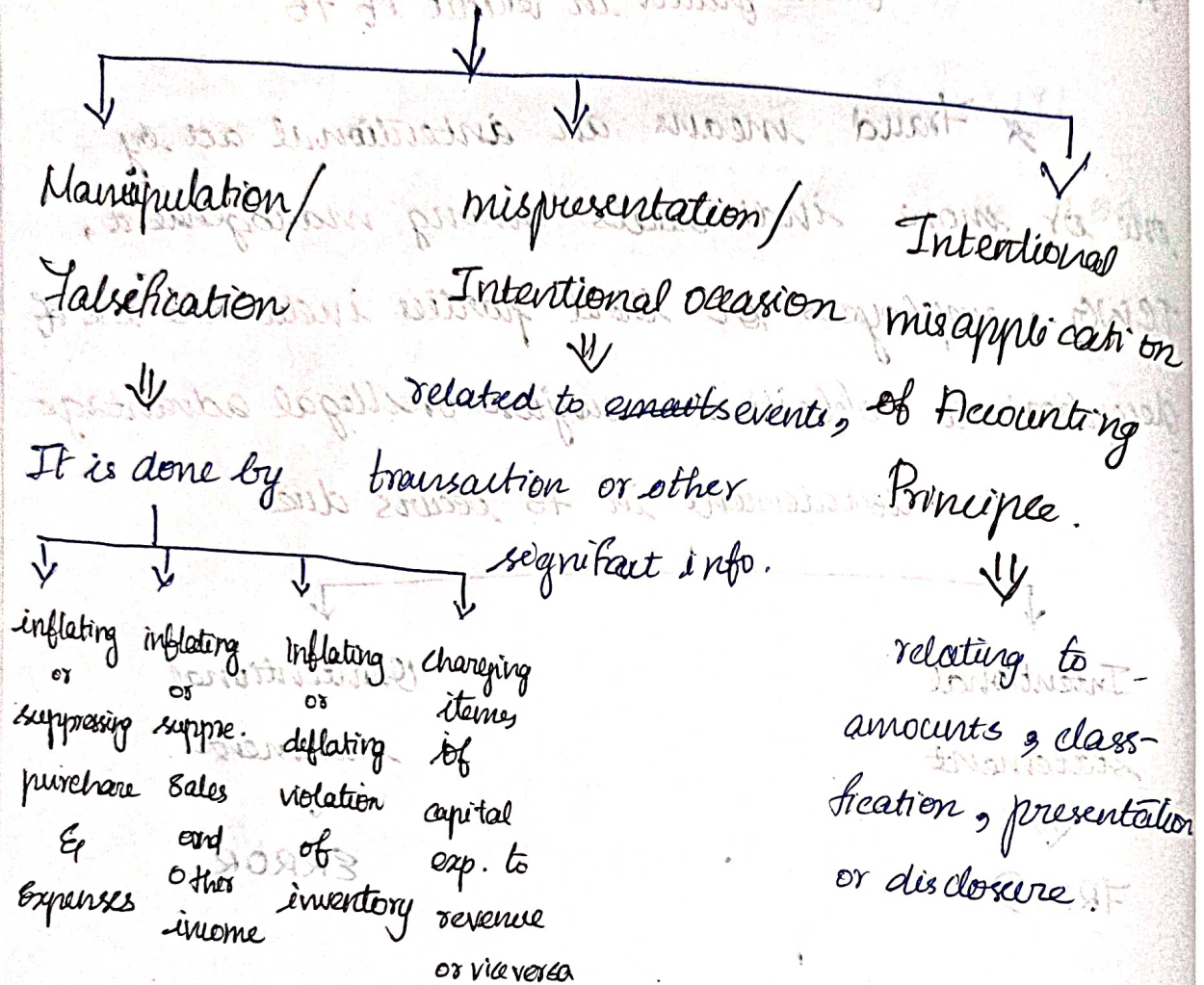
* Auditor is concerned with intentional misstatements.

* Intentional misstatements that relevant to auditor are (characteristics)

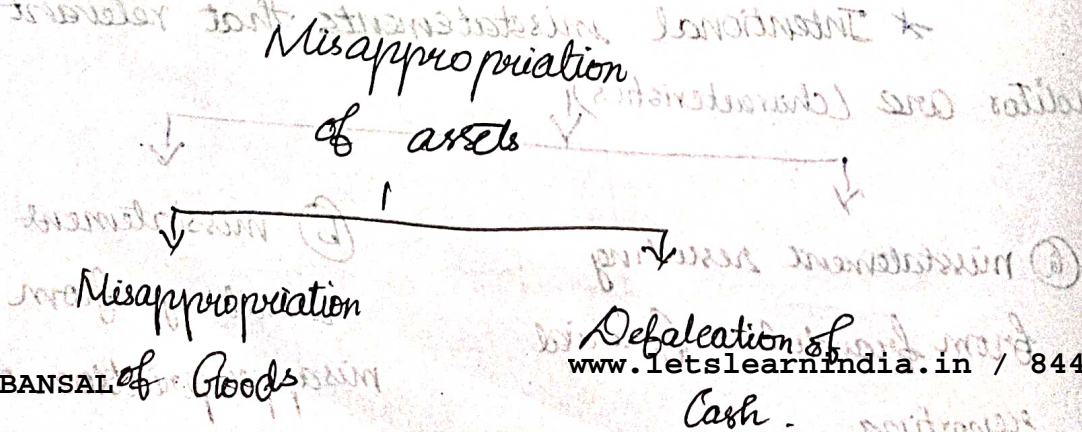


2. How is fraudulent financial reporting achieved?

Fraudulent financial reporting may be accomplished by the following:



3. How is misappropriation of assets takes place in a company?



Misappropriation of Goods.

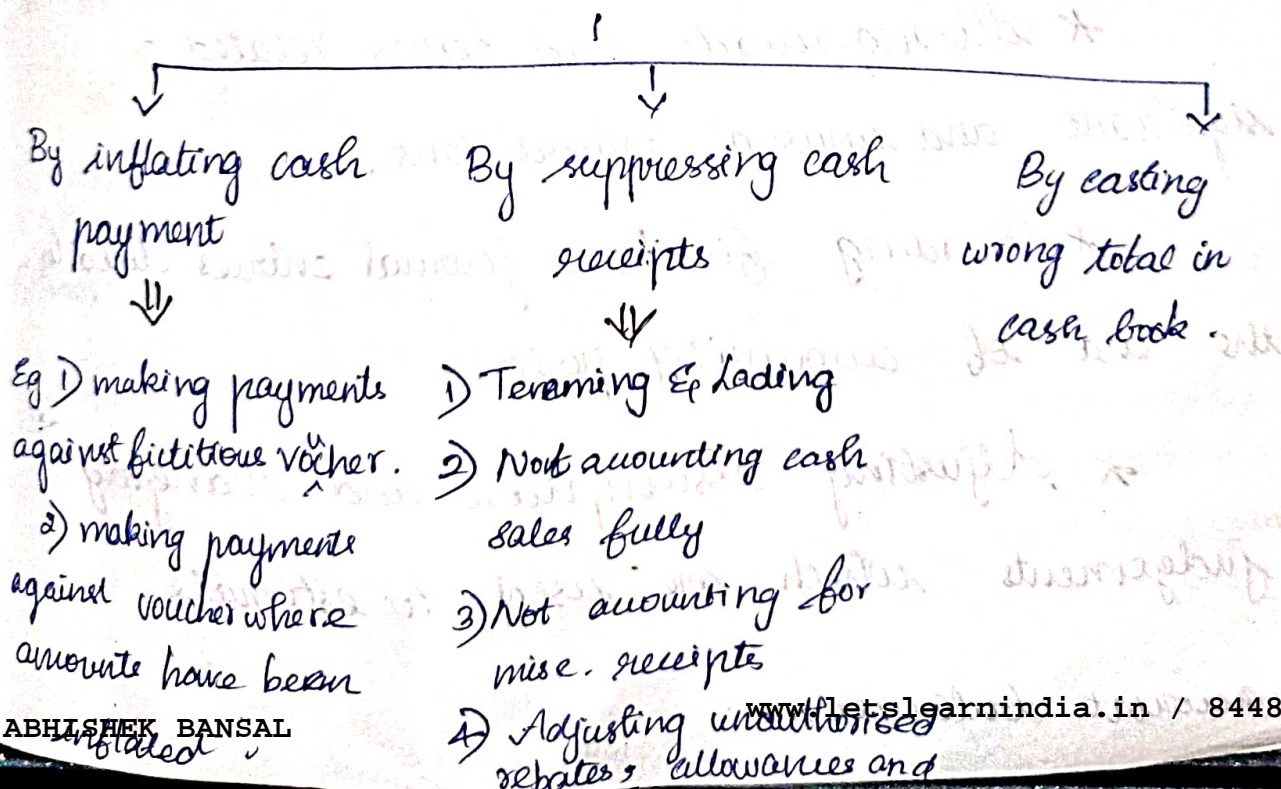
Fraud in form of misappropriation of goods is more difficult to detect and for this management has to rely on various measures.

Record keeping about physical quantity and their periodic checks or few measures to detect misappropriation of goods.

There should be arrangements to see that no goods are taken out without proper authority.

Goods may be removed by subordinate employee or even by persons quite higher up in the management.

Defalcation of cash



⇓
3. Manipulating the total of wage rolls.

⇓
misappropriating the amount paid by them.

4. Casting the larger total for petty cash expenses & adjusting the excess in the total column.

A) Techniques by which management override controls. ⇒ CA-RAO

* Concealing or not disclosing, facts that could affect the amounts recorded in FS

* ~~altering~~ Engaging in complex transaction to misrepresent the financial position of the entity

* altering records and terms related to significant and unusual transactions.

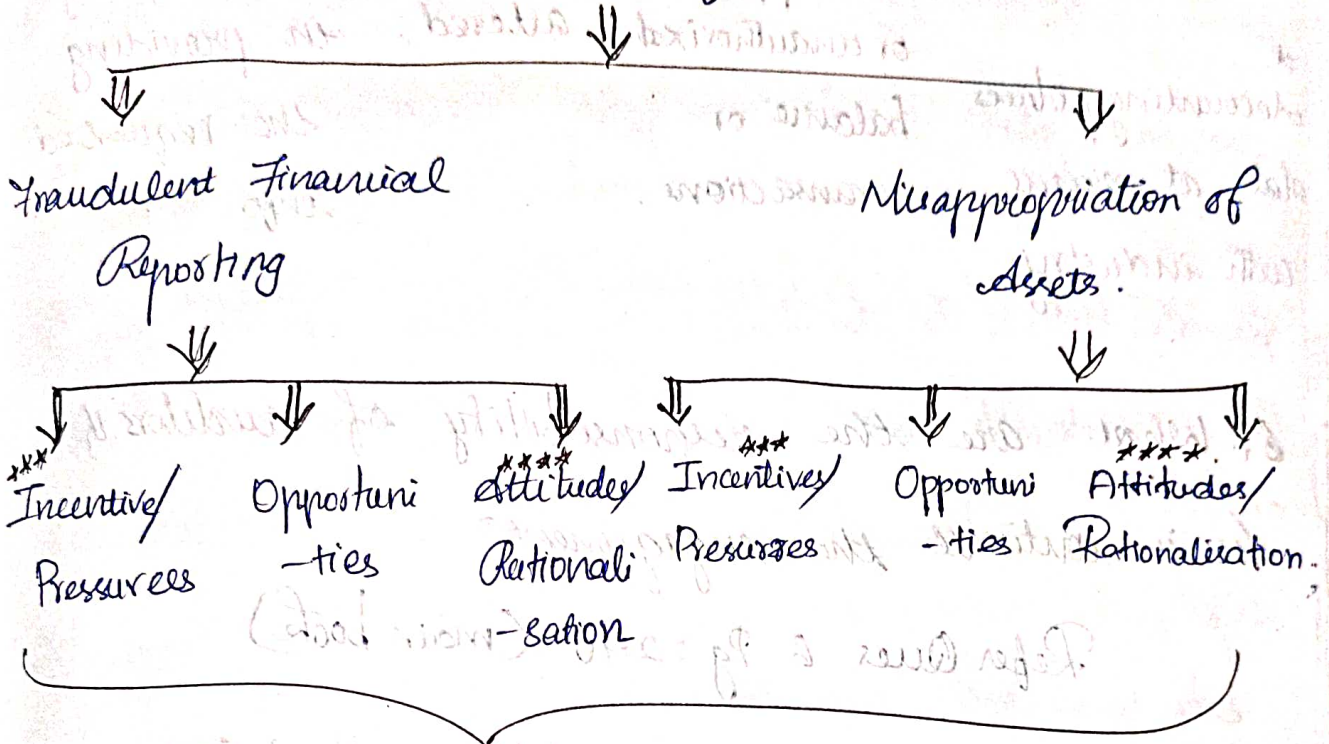
* Recording fictitious journal entries close to the end of accounting period.

* Adjusting assumption and changing judgements which are used to estimate

* Omitting, advancing or delaying recognition of the events that have occurring during the reporting period.

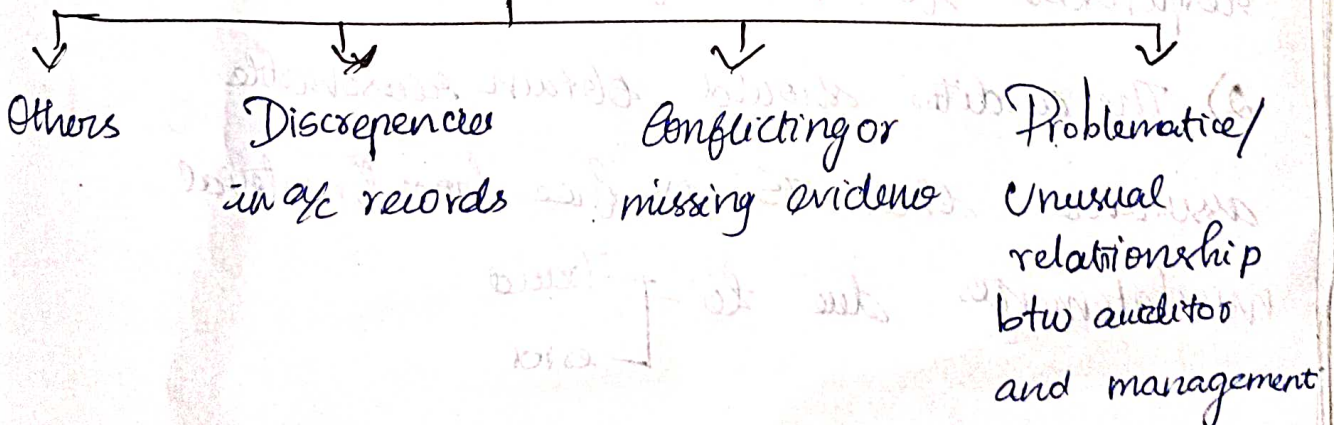
5. Explain Fraud Risk Factors

Fraud Risk factors



Refer Ques 4 Pg 288 (main book).

6. Mention the circumstances indicating possibility of fraud? - Odep



- * Unwillingness by management to permit the auditor to meet privately with T&B
 - * Transactions which are not recorded or improperly recorded.
 - * Missing documents that appear to have been altered.
 - * Denial of access to records, facilities, records, facilities, customers etc.
 - * Unusual dealings by the entity in providing the requested info.
- * Accounting policies data at variance with industry.
- * Unsupported or unauthorized balance or transactions.

67. What are the responsibilities of auditors if he is continue the engagement?

Refer Ques 6 Pg: 290 (main book)

8. What are the responsibilities of auditors for prevention and detection of fraud and error.

1) As per SA 240 - Mgmt is primarily responsible for D&P of F&E.

2) The auditor should obtain reasonable assurance that FS are free from & material misstatements due to Fraud & Error.

3) In audit there is always an audit risk
the some frauds may go undetected due to
inherent limitations

4) Risk of not detecting means resulting from
fraud is higher than that of errors.

5) Auditor should perform his duty with due
skill & care.

6) Liability of auditor for failure to detect fraud
exists only when failure is due to not
exercising reasonable skill & care.

7) If auditor proves that he performed his
duty with due skill & care then he is not
liable. & if he doesn't prove, he would be
liable.

Refer Ques - 2, 4, 6, 8 Pg 5.29 (ISM)

RISK ASSESSMENT & INTERNAL CONTROLS

Q1 What are the inherent limitations of Internal Control?

Some of the inherent limitations of internal control are as follows:-

→ Some controls do not tend to be directed at transactions of unusual nature;

→ The potential for human error;

→ The possibility for circumvention of controls through complicity with parties outside the entity or with employees of entity;

→ The possibility of a person responsible for exercising control could abuse that authority.

→ Manipulations by management with respect to transactions.

→ Compliances with procedures may deteriorate because the procedures becoming inadequate due to change in condition.

Q2. Define Internal Control System and its objective.

Internal Control system is a system which is set up by management to ensure - $200A-R$
(Refer automated environment)

Q3. What are the techniques to evaluate Internal Controls system?

Narrative records	Checklist	Questionnaire	Flowchart
↓	↓	↓	↓
It is complete and exhaustive description of the system. It is used when no formal control system is in operation and would be more suited to small business.	It refers to a series of instructions or questions which a member of the engagement team must follow or answer.	It refers to a series of questions regarding Internal Control which is asked by the auditor to the management. The answers to questionnaires are - Yes, No, Not applicable.	It is a graphic presentation of each part of company's internal control.

Refer 16.4 Page: 294

Q4. Examination In-Depth, Auditing in Depth / Walk through Depth.

1) It implies examination of a few selected transactions from beginning to end through the entire flow of transaction.

2) This examination consists of studying the recording of transactions at the various stages through which they have passed.

3) At each stage, relevant records and authorities are examined.

4) It is also judged whether the person who has exercised the authority.

5) For ex. A purchase of goods may commence when a pre-determined pre-order level has been reached.

6) Steps - "FIR SE VOHT AUDIT"

FIR - Fix the maximum tolerable error limit.

SE - Select few transactions in each area of audit

VOHT - Verification of those selected transactions - 100% by verifying the accounting aspects, internal control aspects, documentation & audit trail

AUDIT - analysis the results with maximum tolerable error limit.

Q5. Explain Internal Check

Internal check is a part of Internal Control System

Internal check means a check on employee where the work of one employee is checked by another. It happens during the transactions.

It operates continuously as a part of routine system.

Read Internal Control Questionnaire -
Pg : 297 AB notes.

Q6. Write a short note on knowledge of client's business?

As per SA 315 - "Identifying and Assessing the Risk of Material Misstatement" through understand the entity and its environment" - information

can be obtained from following:

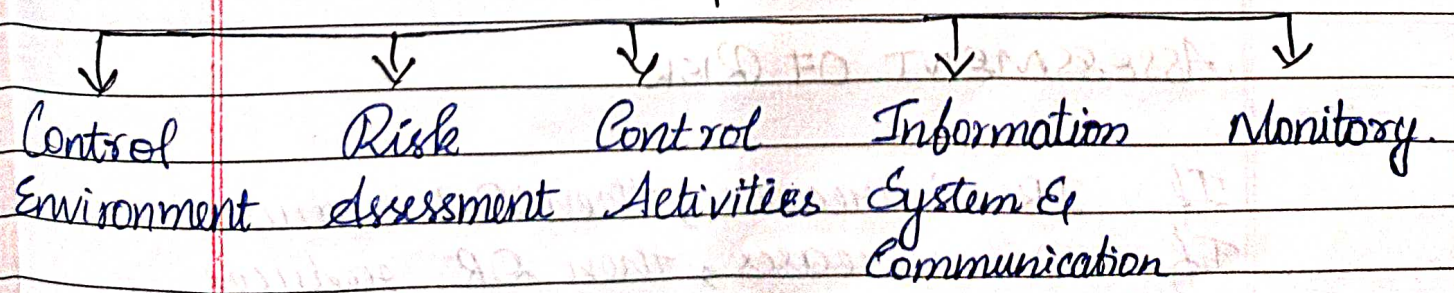
1. Discussion with client
2. Client's policy and procedure manual
3. Client's annual report to shareholders
4. Minutes of shareholders/board of directors
5. Internal financial management reports of current & previous year.
6. Previous year audit working papers
7. Publication like trade journals, magazines, newspaper and
8. Visit to client's premises.

Q7 Common answer for Internal check System - Q of Manufacturing concern, amusement park, super store

- Reber Chandu ke chacha Pg 303

Q8 Explain five components of Internal Control System

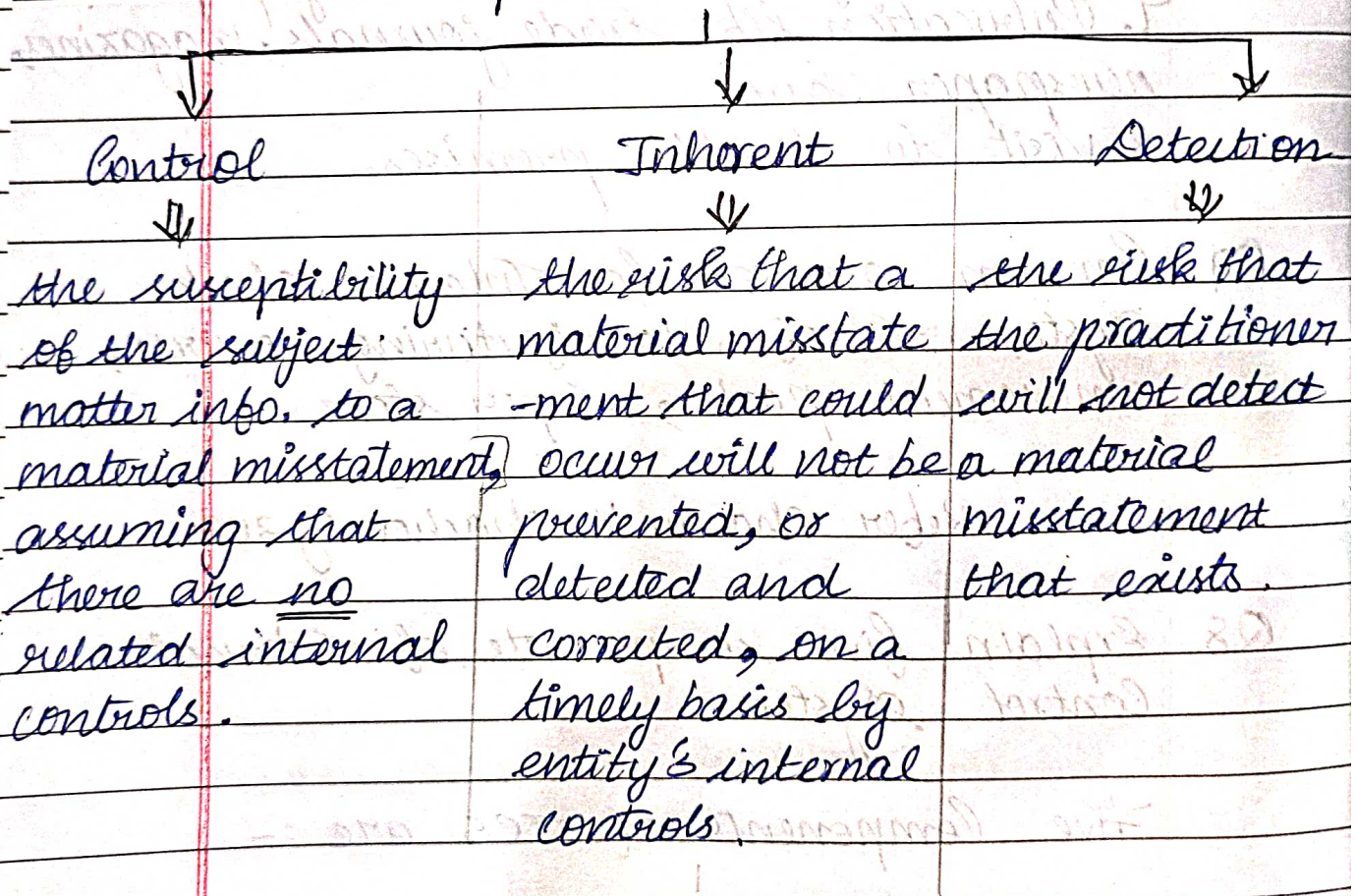
Five Components of ICS are :-



Q9 Explain Audit Risk?

Audit Risk is a risk that an auditor may give inappropriate audit opinion on the financial statement which is materially misstated.

Three components of audit risk are



ASSESSMENT OF RISK

If IR increases, then DR reduces
 If CR increases, then DR reduces
 If $(IR + CR)$ increases, then DR reduces
 $(IR + CR) \times \frac{1}{DR}$

In other words

IR + CR is inversely related to DR

Q.10 Explain inherent risk as per SA?

- Refer Q2 Pg 298

Q11 Explain cut off procedures?

- Refer Q17 Pg 305

Q12 Auditing ^aground the computer & auditing ^{thru} through the computer?

- Refer Pg 306 Qn 17 & 20.

Refer Qn 1, 4, 5, 6 & 8 Pg 4.53 ISM
Ans:-

Qn-1 \Rightarrow Pg 4.27 (E)

Qn-4 \Rightarrow Pg 4.21 elements

STANDARDS ON AUDITING

① SA 200 → Overall objectives of the Independent Auditor & conduct of audit in accordance with SAs

Refer 4 points - Pg: 339 - main book (+)
Q. 10, 18, 25, 44, 47, 52

② SA 240 → Auditor's responsibilities relating to fraud in an audit of FS

Refer fraud chapter notes

③ SA 250 → Consideration of Law & Regulations in an audit of FS

Refer 3 points - Pg 343 - mainbook

④ SA 260 → Communication with TCWG

Refer 4 points - Pg 344 - mainbook (+)
Ques 3, 12, 22 (mainbook)

⑤ SA 265 → Communicating deficiencies in ICS to TCWG and management

Refer 1Qⁿ - 10 points - Pg 345 (mainbook)

⑥ SA - 299 → Joint Audit of FIs.

Refer 6 points - Pg 346 - mainbook

⑦ SA 450 → Evaluation of misstatement identified during the audit

Refer Ques 1 - 5 points - Pg 354 - mainbook

⑧ SA 500 → Audit Evidence

Refer 4 points - Pg 355 - mainbook

⑨ SA 600 → Using the work of another Auditor

Refer 6 points - Pg 358 - mainbook

⑩ SA 610 → Using the work of Internal Auditor

Refer 4 points - Pg 360 - mainbook

⑪ SA 620 → Using the work of Auditor's experts

Refer 6 points - Pg 361 - mainbook

⑫ SA 402 → Audit Consideration relating to an Entity using a Service Organisation.

Refer (A) & (B) Pg 352

⑬ SA 710 → Comparative Information –
Corresponding figures and Comparative
Financial information.

Refer Pg 363

⑭ SA 720 → The Auditor's Responsibilities
relating to Other Information

Refer Pg 364 - 3(b) + chart

⑮ SA 708 SA 315, SA 330 and SA 540
- do only questions.